BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

FEBRUARY 1960

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Interest Rates—

The Trend of Rates . . . Influencing Factors . . . The Public Debt . . . The Supply of Mortgage Funds . . .

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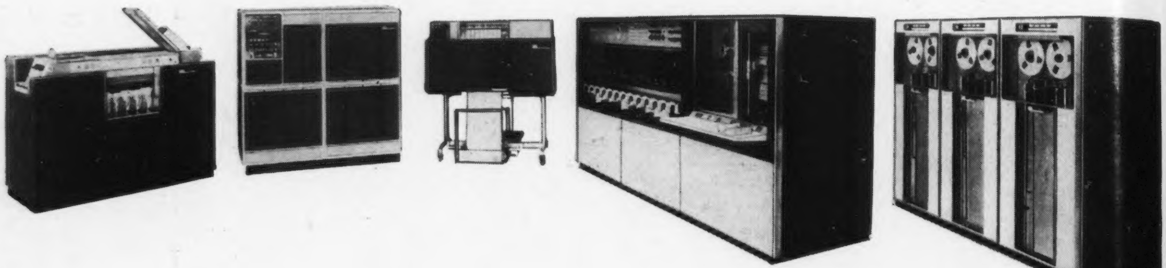

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A Surfeit of Chestnuts

It was one of those days sparkling with the first suggestion of the year's turn toward spring. No one could be blamed for letting his mind drift into visions of fresh-turned earth, blue water and sails, budding trees . . .

A ringing telephone—the return to reality—and suddenly—chestnuts! Not "chestnuts in blossom," but chestnuts on the fire—ripe chestnuts—imported chestnuts—causing no end of trouble and worry and embarrassment.

"There are barrels and barrels of them," said our correspondent friend morosely over the long-distance wire. "Perishable, too," he added, "and worst of all they've arrived 'way past the selling season in this locality."

You get the picture: a shipment financed, delivery delayed, a market season lost, an investment in danger...

Truth is, we were stumped. These chestnuts looked more like hot potatoes. What to do?

Well, we hesitated and then decided to turn the problem over to some of our resourceful people in Credit Analysis and Investigation. There was just a chance that they could find a solution. Combing through wholesalers and importers, they luckily found a merchant whose chestnut market happened to be still active. They put him in touch with our harried friends and helped work out a sale satisfactory to both.

"For a moment, we were chestnut brokers," is the way they told the story in Credit Analysis and Investigation.

But by that time they were following through on the next query—answering one of the 8,000 a year we get at Bankers Trust.

Fortunately, extremely few of the problems we receive are ever as knotty as "Operation Chestnuts." But we mention this one—unusual as it was—as an example of the type of help we try to offer at Bankers Trust.

Naturally, we can't always guarantee a solution, but you'll find that every avenue of approach will be exhausted, speedily and efficiently, before you receive a report. And once in a while, we may even tackle a question as difficult as "Operation Chestnuts."

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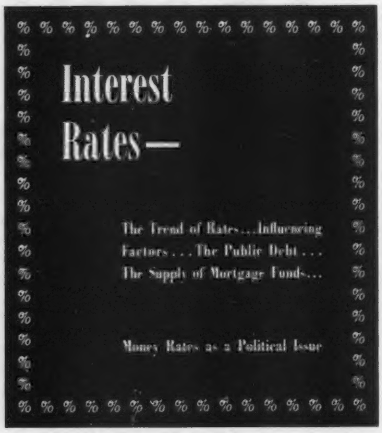
In This Issue



Interest Rates—1960

FOUR authoritative opinions on the outlook for interest rates this year comprise the article that starts on page 40. The contributors to our symposium are William R. Biggs, chairman of Brookings Institution and vice-president and economist, The Bank of New York; Robert P. Mayo, assistant to the Secretary of the Treasury; Norman P. Mason, U. S. Housing Administrator; and Henry C. Wallich, Council of Economic Advisers. Among them, they cover the field rather thoroughly.

Money and Politics

SOMETIMES it's pleasant to be reminded that there's nothing new under the sun—well, almost nothing, anyway. A case in point is the interest rate issue in politics. That, we remind you in "Money Rates as a Political Issue in the Past," is "as old as the nation." This excursion into history, on page 43, has illustrations that carry you back.

Business—from "Agriculture" to "Wages"

SOMETHING new has been added to BANKING's monthly review of what's happening in the world of practical economics. We supplement "The Outlook and Condition of Business" (the usual editorial) with "Digest of the Business Outlook," a terse report on a couple of dozen components ranging from "Agriculture" to "Wages."

There are also five valuable charts that point up "The Condition of Money and Credit."

A Report on In-Plant Banking

MORE than 100 banks are now offering "in-plant" or "at-work" deposit and loan services to employees in plants, stores and offices. In reporting this statistic, author Rudolf Modley outlines several successful programs.

Pointing out that until recently this has been almost exclusively a credit union enterprise, Mr. Modley compares the similarities and differences in service offered by the two types of institutions to the employer and the employee. (Page 50.)

BANKING

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BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

COMPLETE — AUTHENTIC

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THE COUNTRY BANKER

INVESTMENTS

OPERATIONS AND PERSONNEL

GENERAL NEWS

How to Select and Review Tax-Exempt Bonds

WADE S. SMITH

The author is director of municipal research, Dun & Bradstreet, Inc., New York City.

THE keen interest of commercial bank bond portfolio managers and trust officers in tax-exempt bonds in recent months has been understandable. Yields have been at higher levels than at any time in a quarter of a century, and they promise to stay about as high for the first half of 1960 at least. The index of yield of 20 representative state and municipal bonds of 20-year maturity compiled by *The Daily Bond Buyer* reached 3.81% in the early summer of 1959, held close to that level thereafter, regained the same figure in September, and, after a reduction to 3.54% early in November, moved upward to 3.77% by the end of December.

These are tax-exempt yields; at the 52% corporate income tax rate 3.81% tax-free is the equivalent of 7.94% taxable. While future yields will of course be influenced by money market conditions, the prospective supply of state and municipal bonds is large, indicating continuing pressure on tax-exempt bond prices and yields.

A Large Backlog

In 1959 nearly $7.7-billion of tax-exempt bonds were issued, up from $7.4-billion in 1958 and $5.4-billion as recently as 1956. *The Bond Buyer's* November inventory of proposed state and local financing reached $15.87-billion in 1959, up from $13.6-billion in November 1958 and $13.4-billion in the 1957 month. With a backlog of that size it seems likely that tax-exempts will be relatively very attractive for a long time to come, whether their yields hold close to recent levels or not.

The larger banks have long been active in the purchase of tax-exempts, and the largest have sizable staffs engaged in the underwriting and distribution of municipal bonds. It is doubtful, however, that the smaller institutions have taken advantage of the recent opportunities for profitable investment, both for their own account and for trust funds, or that they will in the future do so. Greater participation by the smaller banks in this type of investment would not only be profitable to the individual institutions, but would contribute toward an easing of the rather urgent problem of widening the market for tax-exempt bonds.

Lack of Files a Concern

Certainly a formidable obstacle has been the growing concern of the Federal regulatory authorities concerning the accumulation and maintenance of adequate municipal credit files, and it is the purpose here to examine some methods which would appear to afford opportunities for an increased number of smaller banks to take advantage of the profit opportunities of tax-exempt investment and at the same time do so with ample protection to their stockholders and depositors.

It is, of course, no great trick to select municipals for purchase with considerable success and maintain credit files to satisfy the most exacting bank examiner if the bank has a staff of experienced municipal bond specialists. Moreover, the size of portfolio that goes with such specialized staff makes possible the added economy of purchasing large amounts of information for credit review from the credit agencies, thereby multiplying the effectiveness of staff.

The small bank intending to go systematically into tax-exempt investment, on the other hand, is faced with the virtual necessity of operating with no more than the part time of one or two individuals who have other responsibilities, and the economics of the situation with a small portfolio severely limit the funds which can be used to purchase information. For the smaller institution a successful operation in investment in tax-exempt bonds calls for a thorough understanding, first, of the interdependence of the separate processes of selecting bonds for investment on the one hand and of periodically reviewing the credit quality of the bonds on the other, and, second, of the separate advantages and disadvantages of the two great types of tax-exempt bond markets, the so-called general or national market bonds on the one hand and the local or regional market bonds on the other.

Three Selection Factors

In selecting tax-exempt bonds there are at least three factors, additional to and supplementing the eligibility standards set by the regulatory authorities, which are of concern to the banker. First, the credit quality of the bonds must be within acceptable limits; second, liquidity must be satisfactory for the purposes for which the bond is purchased; and, third, there must be reasonable assurance of the availability of credit information to facilitate periodic review of credit quality. Acceptable credit quality is controlled, of course, by the purpose for which the bond is acquired; the same level of safety or quality is not requisite for all accounts, not often for the entire portfolio of a given account, and, since yield tends to vary inversely with quality, it normally does not appear prudent

(CONTINUED ON PAGE 6)

The Mechanicks National Bank of Concord, N. H. installed Ten

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AUTOMATIC CASHIERS

Above is a view of the interior of The Mechanicks National Bank of Concord, Concord, New Hampshire, showing 10 Model 502 Brandt Electric Automatic Cashiers consisting of two units, the keyboard and coin dispenser. The keyboard unit may be placed apart from the coin dispenser anywhere in the teller's work area, including the cash drawer.

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(CONTINUED FROM PAGE 4)

to pay for quality greater than is needed.

Liquidity is in part a reflection of the marketability of the bonds and in part of their probable price stability; marketability is enhanced by a large supply of bonds of the name and by frequent borrowing, while price stability is affected both by the size of the supply and by the relative vulnerability of the obligor to occurrences which may alarm holders of the bonds and lead them to seek to dispose of their holdings when the market is under pressure. The need for readily available credit information is self-evident, since its lack makes periodic review of quality impossible.

The Annual Review

Review by the holder of the credit quality of his tax-exempt bonds, which should occur at least annually, involves the collection of pertinent credit information and its analysis; when necessary the revision of judgment as to the quality of the bonds; and the taking of appropriate action with respect to the holding when quality has changed so as to place the bond beyond the acceptable limits for that particular fund or account. Moreover, just as a bond whose quality has deteriorated below the acceptable standard should be replaced as expeditiously as possible with a bond of satisfactory quality, so also a bond which has appreciated to a quality level above that needed should be disposed of and replaced with a bond of suitable quality whenever the switch can be made economically, in order that the earnings may always be maximized.

National Market Names

So-called national market names are bonds of state and municipal units which have a relatively large supply of debt securities outstanding in the hands of the public and which borrow with some frequency. The wide distribution of these securities and their frequent appearance in the money market make national market name bonds as a class the most marketable, and the group consequently includes the bonds which are regarded as having the greatest liquidity. In fact, in so far as any municipal bond portfolio is designed to have a degree of liquidity, national market names provide the hard core of bonds for the purpose.

Local or regional market names, on the other hand, are bonds of those local units which have a relatively small supply of debt securities outstanding and which borrow less frequently or only very infrequently. Because these names are less well known and because usually they do not have maturities available in the large blocks which many large financial institutions desire, these bonds generally have to be marketed to yield more than do the national market name obligations.

General Market Names

The general market names as a group provide the investor with a wide variety of bonds from which to make his selection, and, since they include bonds of the best credit quality grades and bonds with the maximum of liquidity, they may be fitted readily into almost any portfolio. Moreover, the size of the governmental units involved and the frequency with which they enter the capital market contribute to good and frequent financial reporting and assure the investor of the availability of regularly recurring credit information, either by direct correspondence with the obligor or by purchasing the information from specialists in credit reporting. A disadvantage of the group, of course, is that such a bond may involve the acquisition of either quality or marketability that is not necessary for the particular account, at the expense of income.

Local and Regional Names

The local and regional market names also provide a wide range of quality for the investor, although credit-wise they do not show as heavy a concentration of the highest credit quality bonds, inasmuch as stability factors are affected by size of community and most of these names are of smaller communities. Since the distribution of the bonds is limited, these names as a group exhibit less liquidity than do the national market names, a factor reflected in yield generally much better than is available for comparable credit quality bonds of national market names.

The commercial sources of information for credit review of these names are very, very limited, however, and many of the obligors do not publish comprehensive annual

"It says in my Baby Book I had a first savings account of $40"

financial reports, and other "standard" data for credit analysis may be incomplete or lacking. (For example, where Dun & Bradstreet, Inc., reviews annually through the issuance of comprehensive municipal credit surveys some 350 of the largest issuers of tax-exempt bonds, representing national market names, the local or regional names are covered by such surveys only when they come to market with general obligation bond issues of $750,000 or more.)

To recapitulate, the national market names offer a plentiful supply of bonds combining acceptable credit quality with good liquidity, but often at some sacrifice in yield, while the local and regional market names afford better yield with the supply generally satisfactory quality-wise, but at a sacrifice of liquidity. The annual credit review of national market names poses no special technical problems, since ample information (including that commercially prepared) is available; local and regional market names, on the other hand, must generally be reviewed as the ingenuity and means of the portfolio manager suggest.

The last observation might seem to suggest that small banks, in particular, can avail themselves of investment in tax-exempts only as to national market names, since the adequate servicing of local or regional market names would require much internal work dependent on a specialized staff. This would be true were it not for two facts which often seem to escape observation: first, local and regional name obligors are by definition located in the backyard of at least some of the banks—i.e., those banks in the same city, town or county, or in the same section of the state, or nearby in an adjoining state; and, second, there is nothing inherently mysterious about municipal credit analysis, a rather substantial volume of somewhat esoteric literature on the subject to the contrary notwithstanding. The techniques of analysis can be acquired, and the practitioner who is concerned with bonds whose obligor is located very near at hand enjoys a unique advantage both as to the collection of pertinent credit information and as to its intelligent analysis.

The lack of a professed or acknowledged specialist in municipals need not prevent an institution from undertaking a systematic program of selecting and reviewing tax-exempts. Nor need the fact that the program must be conducted on a do-it-yourself basis by personnel with other responsibilities prevent such an undertaking. A systematic approach, the willingness to learn by experience, and acknowledgment that one must work his way gradually as proficiency is gained are the prerequisites. Technically, municipal credit analysis has the same objective as other credit analysis with which banks are familiar—the determination of the degree of likelihood that the debt will be repaid in accordance with its terms.

Familiar Analysis Names

The methods are also familiar—the identification of those factors pertinent to the determination of probability of prompt payment, collection of information on the subject debtor bearing on those factors, and the analysis of such information by measuring it against the norms and standards developed against the background of historic experience and the best current practices.

It is beyond the scope of this paper to discuss in any detail the factors pertinent to a determination of credit quality of tax-exempt bonds and the techniques of analysis, but the major areas of investigation may be noted and comment made on the manner in which personnel of small

(CONTINUED ON PAGE 140)

GOVERNMENT BONDS

Market Prospects Worse . . . Treasury Financing . . . February Refunding . . . Treasury Bills at 5% . . . No Help from Open Market Committee . . . Outlook

MURRAY OLYPHANT

WITH the final settlement of the steel strike, which had the earmarks of a capitulation to labor under what looked like political dictation, the pattern of wage adjustments in other industries seems to be clearly forecast. They will be higher. That the terms of the settlement have inflationary implications is obvious.

However, the optimistic forecasts of nearly all economists, that 1960 will witness a decided upturn in business volume, now seem thoroughly justified. Estimates of the demand for new capital expenditures have been raised. Employment is due to increase. Personal income and consumer expenditures seem certain to reach new high totals.

At the same time Government expenditures for defense cannot be cut until the international situation shows much more definite indications of betterment than have yet developed.

Under such conditions the demand for credit seems certain to grow greater in relationship to the supply. This can only result in a further increase in its cost.

This is especially true in view of the clear indications that the monetary authorities—who would be the only source of an increase in the supply of credit—are fully aware of the inflationary character of the present outlook and are determined to do all in their power to prevent a further decrease in the purchasing power of the dollar. Any relaxation of their control of the credit reins is most unlikely. It is more probable that they will be further stiffened.

Hence the weakness of the market prices for all fixed income securities in December very probably points to a continuation of the downward trend to considerably lower levels.

Market Prospects Worse

All during December the market for Government securities grew increasingly discouraged. One altogether-to-be-expected development was the decline in the prices for the longer-term bonds. These had previously maintained their values rather better than circumstances warranted. Their yields were clearly inadequate in relation to the income returns on high grade corporate issues. Only because offerings were rather scarce were their quotations down as little as they were. Now it looks as though prices would have to be more realistic.

By January 6 about 20 issues of Government obligations could be bought to yield 5% or more (five or six of these were bill issues.) Four of the longer 2½% bonds and the 3% bonds of February 15, 1995, had declined below 80 and seemed headed for lower prices.

Selling for tax purposes possibly increased the volume of offerings in December, but where is any demand to come from? Dealers are certain to continue to shy away from taking on any quantity unless a buyer can be dug up promptly. This is more true than ever now that the banks have raised the rate on loans to carry securities to 5½%.

Some temporary credit relief resulted from the return flow of circulation to the banks early in January; but this was largely offset by the need of the Treasury for new cash. Furthermore, the demand for bank loans threatens to increase contraseasonally, while the banks are already fully loaned up.

New Cash for the Treasury

On December 30 the Treasury announced that in order to obtain cash and to refund the $2-billion of bills due on January 15, there was offered a total of $3.5-billion of new bills. Two-billion consisted of a new tax anticipation bill to mature on June 22 and $1.5-billion was a new 1-year bill due on January 15, 1961.

The $2-billion tax anticipation bills were subscribed for on Janu-

(CONTINUED ON PAGE 12)

The Outlook

The present prospect is that before long the prime rate for bank loans will be raised again and that the rediscount rate will also be increased.

The February refunding by the Treasury is likely to cost the Treasury well over 5%.

Most of the longer bills can already be obtained to yield over 5%.

No reduction in the demand for credit is expected. On the contrary it is expected to increase.

The supply of credit is restrained by the restrictive policies of the monetary authorities which show no sign of change.

A sharp further increase in interest rates is possible.

The outlook for bond prices, which has been dubious for months, now looks worse than ever.


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ary 5 and only cost the Treasury an average of 4.726%, although a day earlier a regular issue of bills of only 20 days longer maturities had cost an average of 5.099%. The lower cost of the new bills was entirely due to the fact that the banks were heavy subscribers, as they could pay for their purchases by credit to their Treasury tax and loan accounts. Quite as usual, however, the banks started to get out from under promptly so that the "when issued" market fell to around a 5.14% basis.

Subscriptions for the $1.5-billion of 1-year bills were made on January 12. These could not be paid for by credit to tax and loan accounts, as the proceeds were immediately needed to apply against redemption of the $2-billion bills maturing on January 15. Hence subscriptions from banks were small and the cost of the issue to the Treasury was an average of 5.067%.

February Refunding

About $11.3-billion of 3¾% certificates mature on February 15. Of these about $5.6-billion are owned by the Federal Reserve banks.

Not having tried to sell any 4- or 5-year maturities in January, it is probable that more of such maturities will be offered in exchange for the maturing 3¾% certificates.

It is unlikely that Congress will remove the interest rate ceiling of 4¼% on bonds before the February refunding. In fact, it may be that Congress will refuse to act at all in spite of the earnest plea of the Secretary of the Treasury.

So the 4- to 5-year maturity range, already pretty well choked up, may have to be further increased and the "magic 5s," currently the only Government issue for which 100 or more is bid, seem likely to decline and join the rest of the list at a discount.

"I'll bet you were wondering what had become of your credit card!"

The February operation, conceivably, could be the most costly piece of Government financing.

The Bill Market

So far, fortunately, the demand for bills from other than banking sources has continued to be strong, but with the present prospect for an increasing volume of business there is a growing feeling that at some point, perhaps fairly soon, a period of corporate disinvestment may occur. If this happens, the present rate for bills may look low.

It is hoped that the U. S. Treasury may be able to reduce the gross debt by from $5- to $6-billion by June 30. This might serve to offset a lowering of corporate holdings of bills. Nevertheless, it can be reasonably expected that a higher cost to the Treasury is very likely.

Of about $43.5-billion of bills now outstanding, the Federal Reserve

Treasury Bills at 5%

The record of the regular weekly offerings of Treasury bills during December was as follows:

Offered on	*3 months Amount*	*Average Cost*	*6 months Amount*	*Average Cost*	*Yield Spread*
Dec. 3	$1.2-billion	4.638%	$400,000,000	4.969%	.33%
Dec. 10	$1.2-billion	4.535%	$400,000,000	4.850%	.32%
Dec. 17	$1.2-billion	4.670%	$400,000,000	4.940%	.27%
Dec. 23	$1.1-billion	4.516%	$400,000,000	4.942%	.43%
Dec. 30	$1.2-billion	4.602%	$400,000,000	5.099%	.50%
Average for period		4.59%		4.96%	
Average for previous period		4.37%		4.55%	

and the banks own only between $5- and $5.5-billion. The banks cannot add to their holdings as their reserve position is already "negative." The Federal Reserve can hardly increase its holdings; to do so would be highly inflationary.

Were Congress to act promptly to remove the 4¼% ceiling in Treasury bonds, some progress might be made permitting the Treasury to handle the maturity distribution of the debt in a more intelligent manner than is now possible; but even then it would be some time before the present glut of bills could be lowered enough to affect the rate materially.

Some wag recently coined the phrase "The 6% 60s." He could be right!

Open Market Committee Not Helpful

The Open Market Committee failed to do anything in December to ease the credit situation. During the month the Government portfolio of the Federal Reserve banks declined nearly $300,000,000. This was contrary to expectations, which had anticipated that there would be an increase to offset rising demands for credit. (Bank loans rose sharply over the midmonth tax period.)

Furthermore, money in circulation rose over $500,000,000 and the gold stock declined over $100,000,000. This might have resulted in a sharp rise in the negative reserve positions of the member banks but for the fact that the float averaged nearly $1.4-billion for the month and was over $1.8-billion on December 30.

Once again the Open Market Committee confirmed the view that the monetary authorities have every intention of restraining credit as an anti-inflationary measure.

Two heads aren't better than one with the present price of haircuts.

Today, if one man can do a job in one hour, four men can do it in four hours.

A bachelor is a man who is a thing of beauty and a boy forever.

Most of us never get too old to learn some new way of being stupid.

THE INVESTMENT MARKETS

H. EUGENE DICKHUTH

ENCOURAGING news emerges from perusal and analysis of the 1959 statistics of the investment markets. The total of bond offerings declined and new stock issues were higher than in 1958.

A bond issue is an indebtedness at a fixed interest rate which has to be repaid at maturity in one form or another. In case of state and municipal debt, it tends toward higher taxes for citizens. In case of corporate debt, it means a dilution of corporate income which could otherwise be employed in capital investments or dividends.

New stock issues, on the other hand, represent a permanent equity used in productive economic pursuits. Stockholders' money usually goes into tools of production, into capital investments which provide a basis for national income.

Less Pressure

One of the reasons why bond issues declined might have been the lessening of inflationary pressures last year. In the past, there has been a tendency to issue bonds because in a highly inflationary cycle they could be paid off or replaced in cheaper dollars.

Total bond offerings in 1959 came to $17,015,396,000. This compares with $17,046,562,000 in 1958 and with $17,148,913,000 in 1957. The 1959 showing would have been more than $300,000,000 lower if there had not been an equivalent gain in Home Loan Bank bonds and finance companies.

State and municipal issues were the largest in any of the three years, and utilities were the second largest. The utilities seem to have a built-in growth factor, owing to the great use and increasing popularity of such gadgets as air conditioners, television, and clothes dryers.

New stock offerings last year were the largest since 1946. They amounted to $1,140,890,000, against $696,348,000 in 1958 and $642,384,000 in 1957. In the equity group, the utilities led the parade with $579,254,000, compared with $545,671,000 in 1958 and $373,278,000 in 1957.

Industrial issues, outside of utilities, made an enormous gain last year. They offered $491,089,000 in stocks, compared with only $105,717,000 in 1958 and only $223,350,000 in 1957. This is a most encouraging factor, as mentioned above.

Bond Prepayments Up

A relatively healthy climate was indicated by the fact that bond prepayments in December—before maturity—were quite large. They amounted to $32,388,000, against $25,207,000 in November and $22,802,000 in December 1958. In this field, states and municipalities did nobly by redeeming more than $17,000,000 of their bonds, compared with $14,800,000 in 1958 and only $8,900,000 in 1957.

Testimony to the growing strength of other Western countries was the December redemption of foreign securities which were no less than $14,102,000, compared with $2,940,000 in December 1958 and $1,529,000 in December 1957. Utilities followed with more than $800,000,000.

For the year as a whole, bond prepayments do not stack up that well. They totaled $389,602,000 for all categories, against $589,974,000 in 1958 and $221,347,000 in 1957.

In the closing week of last year, there was the usual pressure on prices because of selling to establish tax losses. It hit the tax-exempts also, but not too vigorously. The New Year saw greater buoyancy.

Two finance companies, C.I.T. Financial Corp. and Commercial Credit, were the first ones to borrow $125,000,000 and $50,000,000, respectively. The response was good, particularly from pension funds and savings banks.

The New Year also saw substantial demand for new issues of tax-exempt bonds from institutional investors, and dealers were thus able to clear some of the inventories.

On page 114 Mr. Dickhuth discusses the financial condition of stock insurance companies.

Influence of Interest Rates

The investment markets will, of course, be influenced considerably by interest rate developments. In January, some major New York banks hiked the "street loan" rate to 5½%. This is the rate to brokers and dealers against stock exchange collateral. The increase was ½%. Before this appears in print, the so-called "prime rate," now at 5%, may also have been boosted to 5½%.

Traditionally, the Federal Reserve lifts the discount rate whenever there is a substantial spread between that rate and the yield on 30-day bills.

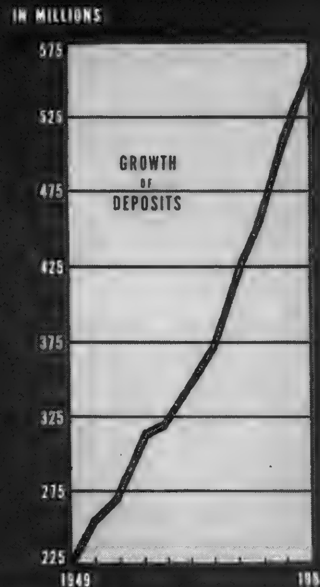
Other Market Factors

The stock markets cannot help but be affected by the higher dividends which have been paid recently, by better earnings throughout industry and, conversely, by prolonged labor disturbances, such as have occurred in steel and may appear in the railroad and other industries.

Brokers and traders cannot help but be influenced by the presently overwhelming view that business, as a whole, will be strong, that the demands for goods and services will be high as well as the demands for capital and credit.

Moreover, the influence of the institutional investors is growing continually—pension funds, banks, insurance companies, investment companies, to mention only a few. The pressure of new funds for investments is quite high. Investments in mutual fund shares, for example, are estimated to have reached $2.3-billion in 1959, compared with only $1.6-billion in 1958.

This continual pressure for investment will not benefit all sectors of the markets equally, but it certainly cannot help but benefit some of the sectors some of the time.



REFLECTING *Arizona's*: DYNAMIC DECADE

Statement of Condition

AT THE CLOSE OF BUSINESS
DECEMBER 31, 1959

(Compared with December 31, 1958)

RESOURCES			
Cash and Due from Banks		$119,208,413.48	
U. S. Government Bonds		70,715,418.90	
Other Bonds		39,096,746.28	
Loans (Federally Insured or Guaranteed)		85,955,073.32	
Other Loans (Less Reserve for Possible Loan Losses)		284,911,523.68	up $68,600,000
Accrued Interest Receivable		3,513,442.17	
Buildings, Furniture and Fixtures		12,396,466.80	
Other Resources		5,321,612.85	
Total Resources		**$621,118,697.48**	up $68,800,000
LIABILITIES			
Deposits:			
Checking	$333,688,090.04		
Savings	163,185,128.97		
Public	70,548,042.69		
		$567,421,261.70	up $67,000,000
Provisions for Taxes, Interest, etc.		2,708,266.20	
Unearned Discount		8,328,180.16	
Other Liabilities		3,508,265.39	
Capital Funds:			
Capital Stock	$ 8,399,300.00		
Surplus	22,600,700.00		
Undivided Profits	8,152,724.03		
		$ 39,152,724.03	
Total Liabilities		**$621,118,697.48**	

VALLEY NATIONAL BANK

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

"Everywhere in Arizona"

60 OFFICES
HOME OFFICE
PHOENIX, ARIZONA

Carl A. Bimson
PRESIDENT

Largest Bank in the Rocky Mountain States

heard along main

Compiled by Marguerite

Since this is the most active time of the year for important personnel changes in the banks of the nation, BANKING *has done its best to keep other Main Street material at a minimum so that you may receive as much of this news as possible about your friends and associates. However, lack of space precludes our using as many of these items as we would like to use, and many must still be held over.*

About People

CHARLES A. JACOBUS becomes assistant vice-president, First National Iron Bank, Morristown, N. J.

WILLIAM D. WELLS, from assistant vice-president to vice-president, Exchange National Bank of Tampa, Fla.

MALCOLM E. AUSTIN becomes vice-president and comptroller, Middlesex County National Bank, Everett, Mass.

FRANK D. FULTON becomes vice-president and trust officer, Bank of Martinsville and Henry County, Martinsville, Va. G. W. MERRIMAN, G. C. SALMONS, JR., both become assistant vice-presidents.

WILLIAM A. KENNEDY, from executive vice-president to president, Union Market National Bank of Watertown, Mass., succeeding JOHN S. TUFTS, who becomes board chairman and continues as chief executive officer. MR. KENNEDY is a member of the A.B.A. Public Relations Council, and chairman of the Public Relations Committee of the Massachusetts Bankers Association.

ROBERT L. EMERINE becomes vice-president and cashier, City National Bank, Council Bluffs, Iowa; RICHARD S. GOOS becomes second vice-president.

WILLIAM H. CHISHOLM, president, Oxford Paper Company, and EDWARD ABORN, president, Tenco, Inc., become directors, Grace National Bank of New York.

LESLIE M. CASSIDY, former board-chairman, Johns-Manville Corporation, becomes director, First National Bank of Jersey City, N. J.

ALLEN MORGAN, member of the A.B.A. Public Relations Council, from executive vice-president to president, First National Bank, Memphis, Tenn., succeeding NORFLEET TURNER, new board chairman. W. A. WOOTEN, vice-president retires; GLENN HODGES, O. STUART McCOWN, JOSEPH A. POWELL, become assistant vice-presidents.

JOHN V. BACIGALUPI, KENNETH V. LARKIN, HERMAN J. COCHRAN, all become vice-presidents at Bank of America N.T. & S.A. branches. OWEN R. CHEATHAM, board chairman, Georgia-Pacific Corporation, N. Y., becomes a director.

WILLIAM F. HUCK, retired Bank of America vice-president, joins 5-man trade mission to the United Arab Republic at the request of the U. S. Department of Commerce. MR. HUCK served on a similar mission to India and the Far East a year ago.

WALTER BRAUNSCHWEIGER, retiring vice-president, Bank of America, N.T. & S.A., Los Angeles, was honored and presented with a scroll by the Los Angeles County Board of Supervisors for 35 years of leadership in community affairs.

Bankers Help Map Cancer-Control Plans

The largest single group of lay persons in the American Cancer Society's national membership is bankers. Gathered to help map the future course of the nation's cancer control program, banker-members at the New York meeting of American Cancer Society were, *left to right*, C. Glenn Rye, vice-president, Midland National Bank of Billings, Mont.; Harry A. Brinkman, former officer, Harris Trust and Savings Bank, Chicago; Harry McEneny, Jr., National American Bank of New Orleans; Dr. C. M. Lund, president, First National Bank, Williston, N. D.; Ferd H. Block, Citizens Bank of New Orleans, La.; Col. C. W. Daugette, Jr., pres., First National Bank, Jacksonville, Ala.; Fred A. Duran, president, First National Bank of Auburn, Ala.; Waldo I. Stoddard, Michigan National Bank, Grand Rapids; L. John Gable, vice-president, Security Mutual Bank and Trust Company, St. Louis, Mo.; Daniel E. Stoddard, president, People's Savings Bank, Providence; William H. Cantwell, president, People's Bank and Trust Company, Wilmington, Del.

street

Beck of **BANKING'S** *staff*

ISAAC B. GRAINGER, president, Chemical Bank New York Trust Company, New York, retires at age 65 but remains as a director and a consultant. WILLIAM S. RENCHARD, now executive vice-president, is expected to succeed MR. GRAINGER. HOWARD MCCALL, JR., executive vice-president, is scheduled to become first vice-president, a new office. WALTER C. SUNDBERG, ROBERT O. WHITE, from assistant vice-presidents to vice-presidents.

FRED W. ALEXANDER, from vice-president to president at High Point (N. C.) Savings and Trust Co., succeeding the late H. N. WILLIARD.

JOHN D. CHISHOLM from first vice-president to president, Olmsted County Bank and Trust Company, Rochester, N. J.

F. M. HOLT, who was an officer for 25 years at Merchants and Planters Bank, Warren, Ark., rejoins that bank as president after having recently been president of Northwest National Bank, Dallas, Tex.

ALVIN WYLIE, from vice-president to president, Citizens Bank and Trust Company, Kilgore, Tex., succeeding FOREST L. SARTAIN, who resigns.

T. GILBERT ADAMS, from vice-president to president, First State Bank, Jasper, Tex., succeeding the late C. C. POOL. CLARENCE P. COWART becomes vice-president.

P. BOOKER ROBINSON, from executive vice-president to president, Citizens Fidelity Bank and Trust Company, Louisville, Ky., succeeding LEE P. MILLER, immediate past president of the American Bankers Association, who becomes board chairman.

HORACE F. STOKES, vice-president, American Security and Trust Company, Washington, D. C., retires after 40 years in banking in the District of Columbia.

EDWARD J. JENNETT, vice-president, First National Bank of Chicago, retires and joins A. G. Becker & Co., Incorporated, Chicago investment banking and brokerage house, as a vice-president.

Five other retirements announced at First National Bank of Chicago, were: JAMES P. FEELEY, R. K. O'HARA, EDWARD J. JENNETT, THOMAS G. JOHNSON, JOSEPH T. KECKEISEN, all vice-presidents, and DAVID N. HESLAR, assistant cashier.

EDWIN JOHANKNECHT, JR., from president to board chairman, Union Savings Bank of Patchogue, N. Y.; IRVIN L. HAWKINS from executive vice-president to president.

WILLIAM C. FARRELL, JR., and JOHN M. MULVIHILL, from assistant cashiers to assistant vice-presidents, American Fletcher National Bank and Trust Company, Indianapolis, Ind.

DEE L. FROST, from trust officer to vice-president, Iowa-Des Moines National Bank; DONALD C. CACKLER and JOHN D. HUNT become assistant cashiers.

National Union Bank of Dover, N. J.: ALVAN B. FEHN becomes president, succeeding CHARLES H. HART who becomes board chairman.

RODNEY H. KURTH, from assistant vice-president to vice-president, Montana Bank, Great Falls.

OTTO A. POPP, vice-president, Elmhurst (Ill.) National Bank, is honored for his 50th year with the bank.

HARRY M. SERVIS, vice-president, becomes senior vice-president at Connecticut Bank and Trust Company, Hartford. EDWARD S. HUNTLEY, vice-president and branch manager, retires after 29 years of service.

Silver Presented at 25th Anniversary

John A. Schoonover, president, Idaho First National Bank, Boise, and Mrs. Schoonover, admire the silver presented in testimonial to Mr. Schoonover's 25 years of service. He came to Boise from Spokane, Wash., in 1934 to become executive vice-president of Idaho First and became president in January 1939

EARLE W. STAMM, senior vice-president, Hartford (Conn.) National Bank and Trust Company, retires after 35 years of service. JOHN B. BOLLES, vice-president and trust officer, retires after 36 years of service. EDWARD S. HUNTLEY, vice-president, retires after 29 years.

AKSEL NIELSEN, president, Title Guaranty Company, and president, Mortgage Investments Company, Denver, Colo., becomes director, First National Bank of Denver. RICHARD C. MECKLEY, LARRY V. DEBELL, and RALPH W. HAWKINS, all assistant vice-presidents, become vice-presidents.

PAUL PIGOTT, president, Pacific Car and Foundry Company, becomes director, Seattle-First National Bank, Seattle, Wash.

JOSEPH H. ALLEN, board chairman and chief executive officer, First New Haven (Conn.) National Bank, and FREDERICK D. GRAVE, executive committee chairman, both retire after nearly 50 years in banking in New Haven; also retiring are WILLIAM

G. CLEAVER, CARL F. HAUSER, RALPH L. HOLBROOK, W. HERBERT FROST, and HARRY G. WIBERG, all vice-presidents. FLORENCE D. SMITH, assistant cashier, and ELLEN L. EASTMAN, assistant trust officer, retire.

Newly-promoted at First New Haven are: ABBOTT H. DAVIS, from president to board chairman, and J. COY REID, from first vice-president to president. THOMAS HOOKER becomes senior vice-president; GEORGE W. KUSTERER becomes vice-president and cashier; DONALD B. MYERS becomes vice-president and senior trust officer; E. PERRY JAMES becomes vice-president; RICHARD L. RICE becomes assistant vice-president.

FRED L. WUEST, president, State Bank and Trust Company of Wellston, St. Louis, Mo., retires as president but remains as a board member and chairman of the advisory committee. MR. WUEST, age 65, has spent 50 years with State Bank and was feted at a testimonial dinner held in his honor in November last year.

F. C. BARNHILL, executive vice-president, Wood & Huston Bank, Marshall, Miss., celebrates both his 60th anniversary with that bank and his 80th birthday at the same time.

PAUL ZIMA becomes vice-president, Bank of Broadway, Melrose Park, Ill.; JEROME LOWE becomes assistant cashier.

ROBERT CHRISTOPHER ADAIR, executive vice-president and director, M. S. Bailey and Son, Bankers, Clinton, S. C., retires at age 65.

CHARLES DONALD BROWN, trust officer, First National Bank of Nevada, Las Vegas, becomes vice-president. LINO DEL GRANDE, manager of the bank's South Virginia office becomes vice-president.

PARKER R. WAITE, Fidelity-Philadelphia (Pa.) Trust Company, becomes vice-president.

Bank of Douglas, Phoenix, Ariz., announces vice-presidency of J. SHELBY DANIEL and GEORGE F. GERMAN.

(CONTINUED ON PAGE 20)

main street (cont'd)

SHERIDAN P. GALLAGHER, ROBERT CROOK, both become vice-presidents at National Bank of Commerce, Seattle, Wash.

DR. O. B. JESNESS, agricultural economist and former head of the University of Minnesota's Department of Agricultural Economics, is named board chairman of Federal Reserve Bank of Minneapolis. He succeeds LESLIE N. PERRIN, who retires. MR. PERRIN is a director, consultant, member of the executive committee and former president of General Mills, Inc.

J. STANLEY PETERSON, from assistant vice-president to vice-president, First Western Bank and Trust Company, San Francisco, Calif.

GLENN A. PRATT becomes vice-president, First National Bank of Arizona, Phoenix.

JONATHAN S. RAYMOND, executive committee chairman, Mellon National Bank and Trust Company, Pittsburgh, Pa., retires and becomes an associate of T. Mellon and Sons.

WILLIAM E. ANDERSON, from senior vice-president and trust officer to president, The Central Trust Company, Cincinnati, Ohio, succeeding WILLIAM A. MITCHELL, who becomes board chairman. CHARLES W. DUPUIS, becomes honorary board chairman. MR. MITCHELL is chairman, A.B.A. Advisory Committee on Special Activities.

C. MALCOLM DAVIS succeeds ROY F. DUKE as president, Fidelity Union Trust Co., Newark, N. J. MR. DUKE becomes board chairman.

JOSEPH E. SPRUILL, from assistant vice-president to vice-president, The Bank of Virginia, Richmond.

EDWARD BERNARD becomes vice-president, First Commercial Bank of Chicago, Ill.

THOMAS F. O'ROURKE, vice-president, retires from The County Trust Company, White Plains, N. Y.

CORNELIUS O. ALIG, JR., GEORGE W. EGGLESTON, both become vice-presidents at Indiana National Bank of Indianapolis. New assistant vice-presidents: JOSEPH P. BRYAN, ELWOOD B. DAUGHERTY, ROY O. HOOKS, CHARLES W. ROBERTSON, JOHN E. STIERS.

RICHARD M. GILLETT, from assistant vice-president to vice-president, Old Kent Bank and Trust Company, Grand Rapids, Mich. R. SCOTT FET-

(CONTINUED ON PAGE 22)

Illinois Gets Its 950th Bank

When the Bank of Mt. Carmel opened, it became the 950th bank open and doing business in the State of Illinois. Here, bank officers take part in the official joining of the bank with its state association. *Left to right* are James E. Brown, vice-president, Mercantile Trust Company, St. Louis, Mo.; Kenneth E. Cook, president, Illinois Bankers Association; and T. M. Bane, president and W. H. Etherton, executive vice-president of the newly-organized bank

main street (cont'd)

NER, GORDON B. BOOZER, WILLIAM H. LOW, all become assistant vice-presidents.

C. A. FIRZLAFF, cashier, also becomes vice-president, First National Bank, Dubuque, Iowa; WILLIAM G. KRUSE, L. RICHARD WINTER, from assistant cashiers to assistant vice-presidents.

ROBERT W. NELSON, vice-president, First National Bank of Cincinnati, Ohio, retires.

ROWLAND A. RADFORD, cashier and vice-president, to cashier and senior vice-president, Bank of Georgia, Atlanta.

JAMES MCCRACKEN, III, becomes vice-president at Orange (N. J.) Savings Bank.

MONROE W. LONG, from executive vice-president to president and board chairman, Cheltenham (Pa.) National Bank.

LOUIS A. WILD, vice-president, Union Commerce Bank, Cleveland, Ohio, retires after over 47 years of service.

OSCAR T. RAHN, STUART B. WEBB, from vice-presidents to senior vice-presidents, Montgomery County Bank and Trust Company, Norristown, Pa.; MERRILL A. BEAN, treasurer, also becomes vice-president; ROBERT J. GEORGE, RODNEY MAGEE, T. T. WOLFENDEN, JR., all become vice-presidents. B. BROOKE BARRETT and HOWARD W. SHELDON, senior vice-presidents, RAYMOND S. KRIEBLE, trust officer, and ROBERT C. RONAN, real estate officer, all retire.

1st Chicago Changes

HOMER J. LIVINGSTON, from president to board chairman, First National Bank of Chicago, Ill., where he continues as chief executive officer; WALTER M. HEYMANN, who was executive vice-president, becomes board vice-chairman; GAYLORD FREEMAN, JR., from vice-president to president and director; and HERBERT V. PROCHNOW, from vice-president to executive vice-president and director.

Mr. LIVINGSTON is a former president of the American Bankers Association.

Mr. FREEMAN is a member of the A.B.A. Savings and Mortgage Division executive committee, and chairman of its Committee on Federal Legislation.

JAMES B. FORGAN becomes honorary board chairman. THOMAS H. BEACOM, trust department head, RAYMOND H. BECKER, cashier, and CHARLES Z. MEYER, comptroller, all go from vice-presidency to senior vice-presidency. JAMES P. BAXTER, EDGAR M. MCKINSTERY, HORACE V. CONDIT, CHARLES E. TROUGHEAR and ELLERTON A. LODGE all become vice-presidents.

CHARLES A. JOHNSON becomes president, The Chatham (N. J.) Trust Company, succeeding EDWIN M. WARREN, who retires after 20 years. Other promotions include LAWRENCE R. LOOCK to secretary; CHARLES J. KAMP to treasurer.

Five vice-presidents become senior vice-presidents, Houston (Tex.) National Bank: B. W. LAKENMACHER, B. F. RENTZEL, R. T. MANICOM, GLEN T. BUNDICK, and O. W. HARIGEL.

LAURENCE H. JONES, cashier, also becomes vice-president at Federal Reserve Bank of Chicago; RICHARD A. MOFFATT, JOSEPH J. SRP, DICK NETZER, all become assistant vice-presidents; FRANCIS C. EDLER becomes assistant cashier.

Genesee Merchants Bank and Trust Company, Flint, Mich., announces new vice-presidents: KEITH R. BAILEY, JOHN R. BUTLER, FENTON M. DAVISON, KEITH E. KREGER, DONALD B. MOORE, JOHN F. SARVIS, PAUL G. SHEPARD, and MYLO RAGAN. New assistant vice-presidents are HOWARD F. GROSS, JAMES A. PROCUNIER, BENJAMIN RING.

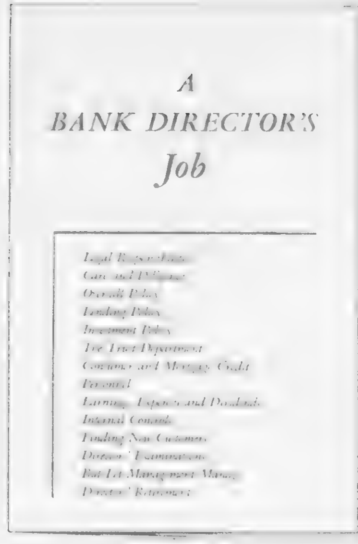
(CONTINUED ON PAGE 24)

Society National Honors 50th Boy Scout Year

In a salute to the 50th anniversary of the Boy Scouts of America, Society National Bank of Cleveland, Ohio, recently hung this mural in one of its branches depicting a scout cook-out. This bank also sponsors the distribution of some 50,000 Boy Scout calendars in Greater Cleveland.

Discussing the painting, from *left to right* are Spencer West, assistant branch manager of the bank's Memphis-Fulton Branch; Amy K. Rockwell, director of public information, Boy Scouts of America's Greater Cleveland Council; John Wilbur, vice-president, Cleveland Cliffs Iron Co., and one of the bank's board members; and D. James Pritchard, vice-president of the bank.

Get Free Copies for Your Directors



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The demand for this publication has been so heavy, that nearly 50,000 directors own it today.

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12 EAST 36th St., NEW YORK 16, N. Y.

MAIN ST.

(CONTINUED FROM PAGE 22)

DON MAPLES, BILL SHAW, both become assistant vice-presidents at Bank of Commerce of Fort Worth, Texas.

WILLIAM J. BRISCOE, from executive vice-president to president, Avon Citrus Bank, Miami, Fla. H. E. KELLER becomes board chairman, succeeding JAMES SOTTILE, SR; ROBERT C. WHITCOMB, cashier, also becomes vice-president.

VICTOR M. CAIN, president, Snap-On Tools Corporation, becomes board member, National Boulevard Bank of Chicago, Ill.

ERVIN L. HEYDE becomes vice-president, Boatmen's National Bank of St. Louis, Mo.; JOHN O'NEIL becomes assistant vice-president.

EUGENE F. SOMMER becomes assistant vice-president, Illinois National Bank, Springfield.

EZEKIEL A. STRAW becomes vice-president and secretary, Manchester (N. H.) Savings Bank; THOMAS E. BARTLETT becomes vice-president and controller.

G. L. SHELDON, comptroller, also becomes vice-president at The Bank of New York, N. Y.; W. J. KENNEY is named assistant vice-president.

Among promotions at Continental National Bank, Lincoln, Nebr.: HOWARD HADLEY, FRED S. ALDRICH both become senior vice-presidents.

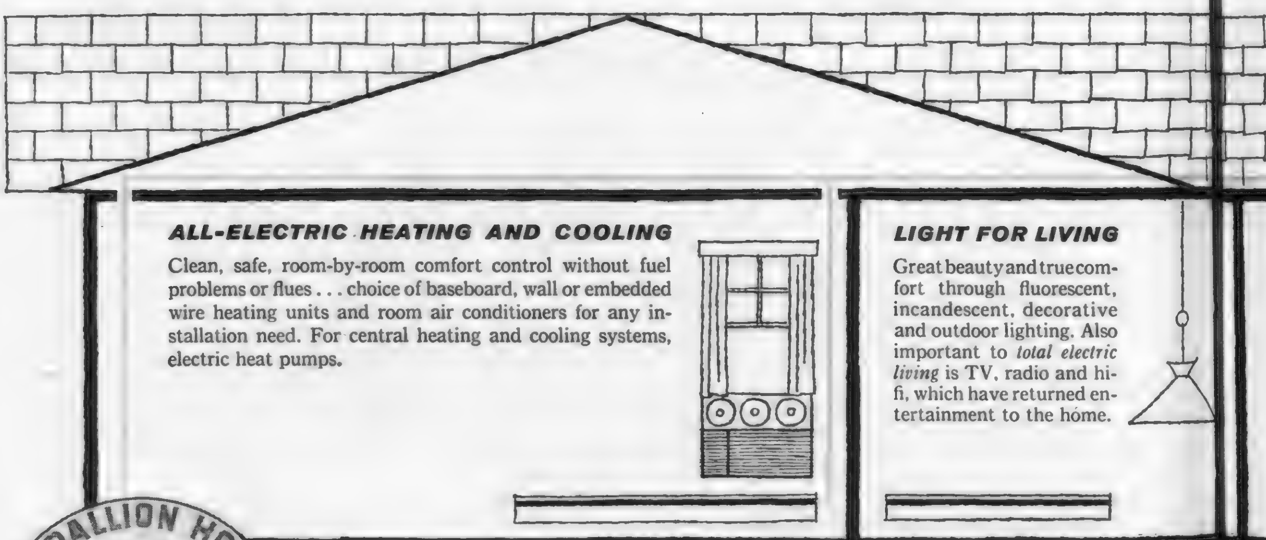
JOHN G. HEWITT, from vice-president to executive vice-president, First National Bank of Jersey City, N. J.; HERBERT S. CROFT becomes vice-president and senior trust officer; AUGUST H. LAGES becomes vice-president and trust officer; ROBERT D. ABEL becomes vice-president; LEWIS J. AUGUSTINE becomes assistant vice-president.

EUGENE R. BLACK, president, International Bank for Reconstruction and Development, is named Ford Foundation trustee.

(CONTINUED ON PAGE 28)

A NEW OPPORTUNITY IN HOME FINANCING FROM GENERAL ELECTRIC

Total Electric Living Increases Value . . . Postpones Obsolescence



ALL-ELECTRIC HEATING AND COOLING

Clean, safe, room-by-room comfort control without fuel problems or flues . . . choice of baseboard, wall or embedded wire heating units and room air conditioners for any installation need. For central heating and cooling systems, electric heat pumps.

LIGHT FOR LIVING

Great beauty and true comfort through fluorescent, incandescent, decorative and outdoor lighting. Also important to *total electric living* is TV, radio and hi-fi, which have returned entertainment to the home.

MEDALLION HOME

LIVE BETTER ELECTRICALLY

GOLD MEDALLION HOMES

Equipped by General Electric

You can hardly make a better investment than in builder financing or mortgages on homes receiving the Medallion award from the local electric utility.

Total electric living built into such homes enhances their value far beyond the actual cost of the equipment—and postpones obsolescence for many extra years.

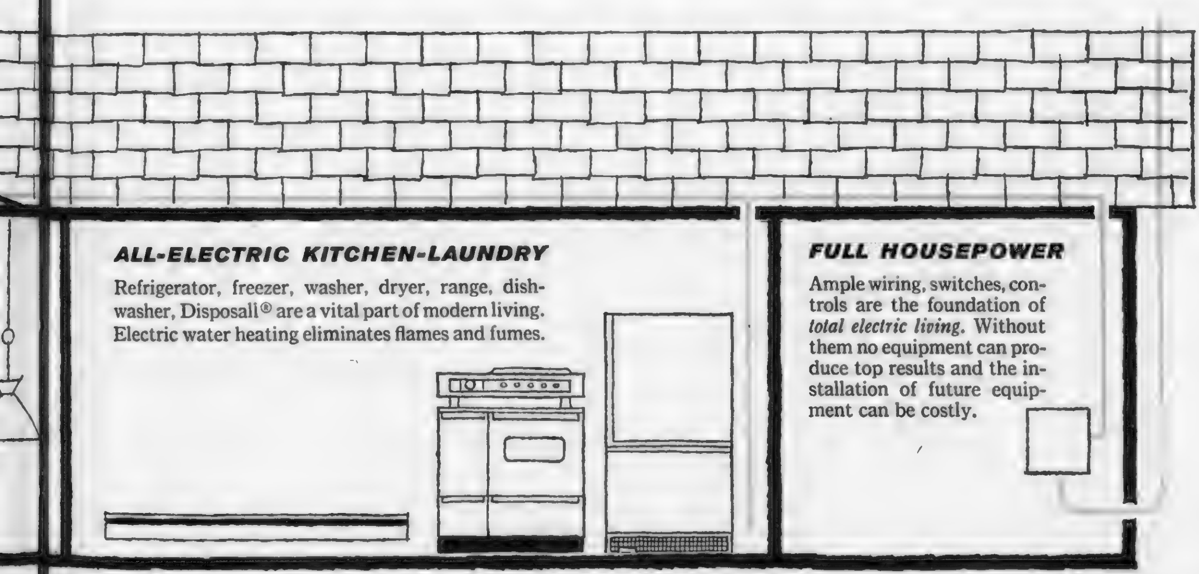
And when you encourage such building, you serve your customers and upgrade property values in your entire community.

All the divisions of the General Electric Company have joined in a single program to aid you and the architects, contractors, builders and electric utilities in your area in the creation of these better homes . . . Medallion Homes. Consumer advertising will appear in Life, Better Homes & Gardens, House Beautiful, House & Garden, New Homes Guide and House Beautiful Building Manual.

For a detailed introduction to General Electric's program to promote Medallion Homes in your area, write for booklet 45-015B.

Residential Market Development Operation, General Electric Company, Appliance Park, Louisville 1, Kentucky.

NATIONAL ELECTRICAL WEEK
FEB. 7-13, 1960



Progress Is Our Most Important Product

GENERAL ELECTRIC

American History Carved in Coin

Artist Grace Spaulding John shows the camera one of the historical coin replicas. Her carving drill appears in the foreground

HISTORY can be told in many ways. The story of our country will be illustrated in 15 three-dimensional coin replicas, each with a diameter of nine inches, interpreting coins of from as far back as 1652, on a grille marking off a new vault area in the basement of National Bank of Commerce, Houston, Tex.

Nationally-known artist Grace Spaulding John carved the replicas under the direction of W. L. Tandy, vice-president at National Bank, a coin collector of some repute. The coins were chosen with reference to the history of the United States.

(CONTINUED FROM PAGE 24)

Bowery Savings Bank, New York City, elects WALTER H. TIETJEN, EDWIN W. GOAT, and ELBERT B. SCHENKEL vice-presidents.

SIDNEY J. TAYLOR, from vice-president to president, Main State Bank of Chicago, Ill., succeeding L. SHIRLEY TARK, who assumes the twin posts of vice-chairman of the board and chairman of the executive committee.

H. H. HENKELMAN, assistant cashier, retires after 40 years with First National Bank of Fort Worth, Texas.

EDWARD C. GRUEN, vice-president and treasurer, and RAYMOND P.
(CONTINUED ON PAGE 30)

The First National Bank of Chicago

Statement of Condition December 31, 1959

ASSETS

Cash and Due from Banks	$ 624,075,317.61
United States Government Obligations	621,389,489.54
Other Bonds and Securities	178,830,984.25
Loans and Discounts	1,586,180,150.04
Real Estate (Bank Buildings and Adjacent Property)	1,030,857.10
Federal Reserve Bank Stock	7,800,000.00
Customers' Liability Account of Acceptances	2,607,676.00
Interest Earned, not Collected	9,281,324.14
Other Assets	7,473,206.24
	$3,038,669,004.92

LIABILITIES

Capital Stock		$ 125,000,000.00
Surplus		135,000,000.00
Undivided Profits		16,305,356.43
Discount Collected, but not Earned		6,830,450.04
Dividends Declared, but Unpaid		2,500,000.00
Reserves for Taxes, etc.		35,211,396.55
Liability Account of Acceptances		3,127,448.15
Time Deposits	$ 580,327,477.97	
Demand Deposits	1,861,742,149.23	
Deposits of Public Funds	265,566,156.25	2,707,635,783.45
Liabilities other than those above stated		7,058,570.30
		$3,038,669,004.92

United States government obligations and other securities carried at $331,266,064.07 are pledged to secure United States government and other public deposits, trust deposits, and for other purposes as required or permitted by law.

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CHESSER M. CAMPBELL
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Sears, Roebuck and Co

European Office—London
37 A Walbrook

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

(CONTINUED FROM PAGE 28)

HUMMELL, assistant vice-president, both retire from Marine Midland Corporation, Buffalo, N. Y.

WILLIAM B. YATES, immediate past president of the Maryland Bankers Association, and executive vice-president of Citizens Bank of Takoma Park, Md., joins Suburban Trust Company, Hyattsville, Md., as administrative assistant.

COL. WALTER J. RILEY, 84, celebrates 50 years in banking. He is board chairman of First National Bank of East Chicago, Ill.

VALDEMAR BERTELSEN and PERRY B. WYDMAN both become vice-presidents at First National Bank of Cincinnati, Ohio.

RUTH F. IRISH, GEORGE R. FORCE, both become assistant vice-presidents at Union Dime Savings Bank, N. Y.

JOHN W. WOERNER, from vice-president to senior vice-president, Girard Trust Corn Exchange Bank, Philadelphia.

J. STOKES CLEMENT, president, Sandura Company, joins board of Jenkintown Bank & Trust Company, Pa.

JAMES A. PARKER becomes vice-president at Federal Reserve Bank of Dallas, Tex.

CHARLES A. AGEMIAN, from vice-president and comptroller to controller general, Chase Manhattan Bank, New York. LEONARD CASEY, C. JOSEPH KENNEDY, JOHN C. MATTHEWS, and ROBERT J. PARK, JOHN A. HOOPER, all assistant vice-presidents, become vice-presidents.

WILLIAM I. SPENCER and EDWIN THORNE both become senior vice-presidents at First National City Bank of New York; nine new vice-presidents are: EUGENE J. CALLAN, JOHN H. EARLY, JOSEPH H. FLEISS, JR., LAWRENCE S. HEATH, II, WILLIAM A. LOCKWOOD, CLARENCE F. MICHALIS, W. A. PRENDERGAST, KENNETH K. ROUNDS, and DANA B. SCUDDER.

W. WAYNE GLOVER becomes vice-president, Firstamerica Corporation, Los Angeles, Calif.

About Banks

Deep in the heart of the new Newark, N. J., is a bit of the old Newark—fondly preserved by THE HOWARD SAVINGS INSTITUTION in its museum-library. Here, etchings and prints of old scenes and buildings, mementos such as mortgages and moneybags from the 19th Century keep "old Newark" alive.

UNION NATIONAL BANK OF PITTSBURGH, Pa., and FARMERS NATIONAL BANK OF BEAVER FALLS consolidate under UNION NATIONAL's charter.

BANK OF AMERICA N.T. & S.A. opens an "Olympic Games Facility" at Squaw Valley, Calif. Located in the Games' reception center, it's been staffed by multilingual bankers and will perform nearly all bank functions—particularly currency exchange. It will not, in any language, make loans. Point of interest: the Games are set for February 18-28.

Merger pending approvals: GROTON (Conn.) BANK AND TRUST COMPANY into CONNECTICUT BANK AND TRUST COMPANY.

Merger pending approvals: FIRST NATIONAL BANK OF FLORENCE, N. J., into MECHANICS NATIONAL BANK OF BURLINGTON.

VICTORIA (Tex.) NATIONAL BANK, expanded, remodeled, and otherwise improved, holds open house.

THE FIRST NATIONAL BANK OF BIRMINGHAM, Ala., opens Crestline branch.

FIRST PORTLAND NATIONAL BANK, and FIRST NATIONAL BANK OF ROCKLAND, Maine, plan merger. New name will be FIRST NATIONAL BANK.

FIRST NATIONAL BANK IN YONKERS, N. Y., opens new Glenwood office—its tenth.

GARFIELD COMMERCIAL & SAVINGS BANK, Los Angeles, opens Monterey Park branch.

(CONTINUED ON PAGE 133)

1 BANK IN EVERY 5 INSURES THROUGH SCARBOROUGH

—and these are the policies they buy

BANKERS BLANKET BOND (Broadest Form). This policy is the foundation of your bank's entire insurance program. Covers loss from fraudulent, dishonest or criminal acts of officers or employees and losses of money and securities. Continually revised to cover the newer bank-risk exposures resulting from your expanding bank activities. Widely acknowledged the best Blanket Bond in the business. We also issue Forms 24 and 2.

*** $1,000,000 EXCESS FIDELITY INSURANCE.** Protection is in excess of your underlying blanket bond—on losses from any criminal, fraudulent or dishonest acts of officers or employees. Covers you against losses of catastrophic proportions. Originated by Scarborough exclusively for members of the Bank-Share Owners Advisory League. The first bank policy to be written on a discovery basis (reimburses your bank no matter how far back an embezzlement started or occurred and regardless of the amount of blanket bond in force at the time).

*** EXCESS ALL RISKS MONEY AND SECURITIES INSURANCE.** Protects your bank against any losses on any premises, public or private, in the United States or Canada and for any reason under the sun except Acts of War or Government, depreciation, failure of a depository, dishonesty of your employees (not the depository's employees) and forgery. The Scarborough policy is the ONLY policy that covers your bank's money and securities on ANY premises without exception. Write for folder.

ALL RISKS SAFE DEPOSIT BOX INSURANCE. Protects your bank against losses of customers' property from your safe deposit boxes from any cause whatsoever regardless of whether your bank is legally liable or not. No limitation on any one box. Write for folder.

*** TRANSIT CASH LETTER INSURANCE.** Insures your bank against loss, destruction, theft or disappearance of your cash letters in transit from your banks, or by correspondent banks, the Federal Reserve, common carriers or armored car companies. Includes checks on your own bank. Sole record-keeping required is duplicate adding-machine tape-listing. Available at a reduced premium if you keep microfilm or other records but desire coverage against blank or destroyed film, mechanical failure, etc. Ask us about it.

*** BANKERS ALL RISK EXTRA EXPENSE INSURANCE.** Actually this is a business continuation policy that reimburses your bank for the extra expense incurred in continuing business at a temporary location following damage or destruction from ANY cause including nuclear fission. The Scarborough policy not only provides ALL RISKS coverage, but also contains no limitation on the amount of your reimbursement during the initial month or months. Write for descriptive folder.

BANKERS AND TRUSTEES ERRORS AND OMISSIONS INSURANCE. Indemnifies your bank against loss if by some inadvertent error or omission your mortgage interest in a property is not insured. This policy also protects the interest of your customer if the mortgage is serviced by your bank and also covers non-mortgaged property held in trust. Coverage is exceptionally broad. A very readable mail-folder describing this policy is yours for the asking.

*** SURCHARGE LIABILITY INSURANCE FOR BANKS AND TRUST COMPANIES.** An important new Scarborough coverage for your Trust Department. This policy indemnifies your bank against legal liability for loss arising out of actual or alleged negligence, error or omission on the part of your bank while acting as Trustee, Executor, Administrator, Guardian, Conservator, Agent, or in any other personal or corporate Trust or Fiduciary capacity administered through your Trust Department. Includes settlement under out-of-court agreement, also costs and expenses. Written on a Loss Discovery basis.

*** CHATTEL MORTGAGE NON-FILING INSURANCE.** This policy is one of the best moneymakers your bank can buy. It substitutes insurance protection for the time-wasting paper work and the filing and release fees associated with filing or recording chattel mortgages or lien instruments. It covers automobiles and other personal property. It gives broader protection than filing as it covers you if you can't repossess in another county or state. It's like filing and recording everywhere in the U.S.A. We originated this policy fifteen years ago. Banks still congratulate us for it. An interesting descriptive mail-folder is available. Write for it.

LENDERS SINGLE INTEREST AUTOMOBILE INSURANCE. If the borrower fails to have insurance on his car this policy covers you. It's a big time saver. Ends chasing the borrower or his insurance agent for the fire, theft and collision policy on the loan you just made. Protects you if the borrower's insurance company cancels him out in midterm and you didn't know it. So many bankers boost this policy that we are convinced if you write us for the descriptive folder, you will send back the application blank by return mail.

LENDERS SINGLE INTEREST APPLIANCE INSURANCE. Gives your installment lending department across-the-board coverage against theft, damage or destruction on all home-appliance loans. Includes dealer floor plan and purchaser loans, also industrial equipment and farm machinery. Pays your bank the balance due or cost to replace. The premium is very low. Write for interesting, easy to read mail-folder on this policy.

LENDERS DOUBLE INTEREST APPLIANCE INSURANCE. Identical to Single Interest Appliance Coverage, except that for a slight additional premium, it pays your bank the full purchase price instead of only the unpaid balance or replacement costs. This enables the dealer to resell the customer and, naturally, is a goodwill builder for your bank. Descriptive folder on request.

*** LENDERS BOAT INSURANCE.** Protects your bank if the borrower fails to carry the marine insurance he agreed to or if the insurance is not enough to cover your loan. You'll find our folder describing this policy highly interesting since the policy is a model for broad coverage and enables your bank to enter the boat loan business with assurance of full protection whatever the exigency. Write for this folder. We'll send it by return mail.

*** LENDERS HOME IMPROVEMENT INSURANCE.** We used to think that this kind of a policy wasn't needed—until bank losses started to pile up simply because most homes today are underinsured. We developed this policy to protect your bank against any physical damage whatsoever to home improvements you finance. It pays your bank regardless of other insurance the borrower carries so it removes the gamble from your loan—which is as it should be. Write for the descriptive folder.

CREDITORS GROUP LIFE INSURANCE. This is the policy that frees your bank from the unpopular act of collecting or repossessing from the dead borrower's family or from endorsers or co-signers. Pays your bank the outstanding balance on installment loans upon death of borrower. The Scarborough policy is unique in the special benefits it affords your bank. These are outlined in our descriptive mail-folder. Write for it.

CREDITORS GROUP ACCIDENT AND SICKNESS INSURANCE. This popular Scarborough bank policy is another strong goodwill booster and a blessing to the borrower as well as the bank. If he is sick or has an accident, Scarborough sends you a check to cover the payments due for the period of his disability. A descriptive folder written for quick, easy reading will be mailed on request.

*Originated by Scarborough and/or offered only by Scarborough.

SCARBOROUGH & COMPANY

BANK INSURANCE

SINCE 1919

FIRST NATIONAL BANK BUILDING, CHICAGO 3, ILLINOIS

BANKING

FEBRUARY 1960

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

The OUTLOOK

and CONDITION OF BUSINESS

The Cold Truce

SELDOM if ever since the start of the Atomic Age has the air been so thoroughly saturated with hope that peace is an actual possibility and that the epoch of fabulous progress so long dangled before us is indeed coming, or already here.

The possibility of progress was never much in doubt, but peace has never been anything but in doubt since Yalta. Politically we have been going backward faster than we have been going ahead economically.

In fact the technological progress of recent years has often seemed to be giving us mainly the means of going backward more efficiently in a political way.

Almost everyone who reads beyond the social gossip and sports pages has been aware that the greatest age of technological and human advancement in all history is just over the next hill, but, clouding that expectation, is always the fear of catastrophe.

Today even those who foresee a moderate downward drift of business later this year quickly add that it will not be serious and can be cured by the sheer momentum of general expansion or by some miracle drug from the Government's monetary medicine chest.

For years it was almost part of a business preacher's catechism to preface all references to the future with "if there's no World War III," or something of that kind. War worry has not wholly disappeared but, for a moment or two in history, has been tucked away in the skeleton closet and may stay there until the summit meeting. Then—hold your hat; here we go again. But now, just for now, we seem privileged to live in a relatively unworried style to which we have not been accustomed, provided we can forget about China and the Far East—but skip that for a few paragraphs.

All this may not quite jibe with the latest national housing exhibit in Chicago, where a featured item was a beautifully designed fall-out shelter for mom, pop, and the kiddies, but this was probably arranged before the present wave of co-existence swept in.

So with a majority of our most trusted business observers, all lined up in step on the bright outlook, it might be more interesting to examine the reasons than dwell on the fact itself. Also before we become too satisfied we should know that some of these informed observers believe that in the rise of productivity we are now near the foot of the class.

One way to measure the volume of confidence in the atmosphere might be the inverse or upside down equation. In the manner of one of Parkinson's Laws, Confidence equals General Expectations divided by Factors of Uncertainty times Inflation, which is definitely X.

On the Other Hand

Among the uncertain factors are the U. S. productivity rate, the election year, tight money, whether Russia has changed her mind or just her methods, Castro's anti-capitalistic beach-head in the Western Hemisphere, increasing foreign competition, and possibly a worldwide dearth of savings.

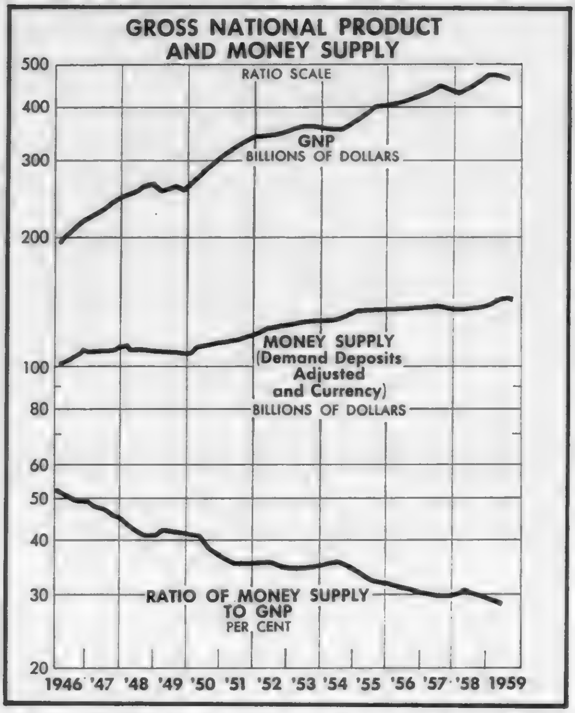
U. S. Productivity Slip Showing

Productivity is something we have always taken for granted as a private specialty of the American way. Startling is the only way to describe the recent conclusion of 11 leading economists that the U. S. rate of productivity increase has been slowing down for five years and we are now near the bottom of the list compared with other industrial powers.

In releasing the results of a recent forum discussion, John S. Sinclair, president of the National Industrial Conference Board, said: "We face a serious challenge to our capability for future growth. The restored economies of Western Europe have not only grown more self-sufficient but they also compete more vigorously for a larger share of world markets. Their rates of growth are significantly higher than ours were in the Fifties, as are those of Soviet Russia and other major powers. In fact, per capita output in the United

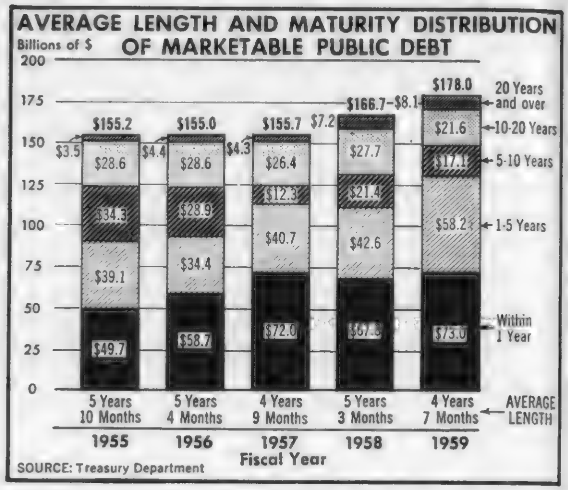
(CONTINUED ON PAGE 166)

See Outlook Digest and Money Charts, pages 34 and 35



By mid-1959, $1 of money supply supported around $4.50 in GNP. While in 1946, $1 of money supported only $2.00 of GNP. When velocity is taken into consideration, these ratios are, of course, narrowed.

The Condition of



At the end of fiscal 1959, 41% of our public debt was comprised of maturities of *1 year or less.* *Only* 4 years ago this figure was 32%. Marketable debt with maturities of *5 years or less* equalled 74% at the end of fiscal 1959 and only 57% 4 years earlier.

Unless Congress removes the 4¼% ceiling on maturities of over 5 years, attempts at debt extension can be made only in securities of short to intermediate length.

Digest of the Business Outlook

MONEY SUPPLY—under restraint; grew little in 1959. While business continues good, continued restraint is expected. '59 velocity was up 6% to 7%. If it subsides, the Fed can relax restraint.

RATES—expected to tighten further this year. (See page 40.) Long-term rates may tighten more than short-term. Any new long-term Treasury cash borrowing will add to the supply of bonds. Dear money expected for some time.

NET BORROWED RESERVES—not changed much in recent months. Two questions are being asked: What will the Fed's policy be this year? And how will banks feel about selling more securities to raise lendable funds? Banking system already fairly strained.

LOAN DEMAND—business loans normally down in first half may not dip this year because of spur for inventory replenishment and production for sale. Consumer and real estate loans are strong, but latter may not equal 1959.

BUSINESS SPENDING—slowed by the steel strike, is picking up speed. Inventories won't be normal before mid-year.

PERSONAL INCOME—rising because of good business; will be reflected in the demand for all consumer goods, consumer credit.

CONSUMER CREDIT—will continue to grow. Both consumer incomes and demand will increase. There was about $6½-billion expansion last year. This year: about the same. Look for increases to finance other durables than autos and for financing services.

TREASURY 1960—more likely net supplier of funds than in any recent year. Administration says wants to hold down spending. Budget surplus in fiscal '61 requires a tight rein and a high level of economic activity, which means high tax revenues and interest rates firm enough to produce some marginal increase in savings.

State and local government spending will keep rising through 1960.

4¼% CEILING—tightens short-term rates on Treasury funds. Treasury will fight for ceiling's removal and hopes to win. Even conditional removal would enable some shift of pressure from short to long-term rates.

INDUSTRIAL PRODUCTION—gives good promise for first half year, with steel stocks depleted. Over-all industrial production index, recently revised by the Federal Reserve Board, should exceed the 1959 high.

Prime question is whether the rise in production will cause shortages, put pressure under prices, encourage speculation. A high rate of industrial activity could mean over-large inventories, lay the ground for the next recession.

WAGES—stimulated by the steel settlement, will show many increases in 1960, exceeding gains in productivity.

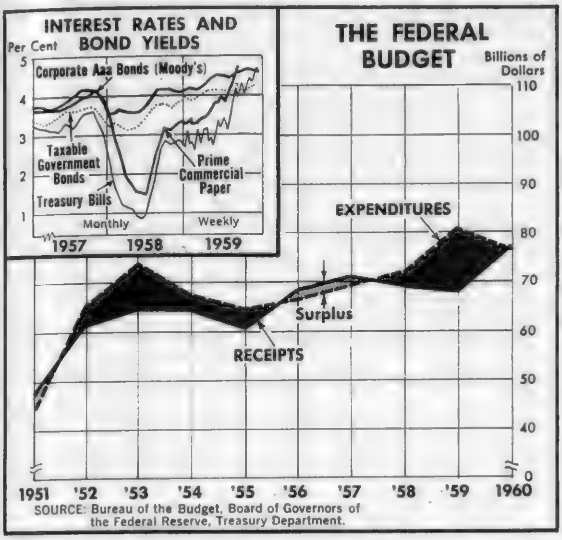
Organized labor steadily seeks rewards without taking any of the risks, nudging us steadily in the direction of some new form of economic system.

PRICES—except wholesale goods will feel steady upward pressure through '60, rising perhaps 1% or 2% on the average.

Consumer prices in general will rise more than wholesale owing to services, which comprise about a third of the index. Thus inflation persists.

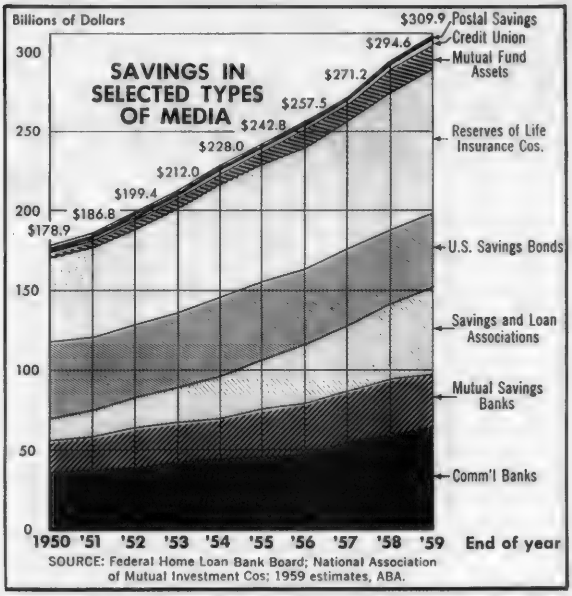
ECONOMIC INDICATORS—nearly all point upward. GNP,

Money and Credit



Federal deficits, which stimulate the demand for goods and services along with the demands of individuals, corporations, and government units affect interest rates.

In 6 out of 10 years, deficits will have amounted to $39.5-billion, with surpluses totalling only $6.7-billion.



According to preliminary estimates, savers in the major financial media shown added about $15-billion to accounts in 1959. This was at a rate of about 38% below the $23-billion added to liquid holdings in 1958.

Funds available in credit markets come ultimately from savings or money creation. Savings can contribute significantly to the controlling of inflation and in sustaining sound economic growth. Generation of funds through money creation, if not matched by output of goods and services, tends to force prices up.

national income, industrial production, personal income—all vigorous. Farm income looks droopy.

AUTOS—strong first quarter promises best in the industry's history. More than 2,200,000 passenger cars likely, emphasizing the compact car. If 1960 production reaches expected 6,700,000 cars, will be almost 22% over 1959.

ELECTRICAL GOODS—expect good year, about 3% up, reflecting long-term growth of the nation. Electrical construction material will stay strong, but big generators may do less well this year.

ELECTRONIC INDUSTRIES—look for substantial increase in semi-conductors. Home instruments will show good improvement; also radios, TVs, stereophonic, and other phonographs and records. Military, industrial and commercial demand will be up substantially. '60 will see a new high.

AGRICULTURE—the Agriculture Department expects further lowering of prices and income. December pig crop report shows farmers are cutting production, suggests improved hog prices late in '60.

STEEL—settlement forced by Government gave union victory on all points, seems sure to entail future price increases. The industry sees '60 a capacity year, with first half output of 70,000,000 tons v. 82,000,000 in all of '59. Controversial "work rules" no nearer solution.

RAILROADS—face long negotiations with unions. Railway Labor Act machinery may postpone crises until April. Government won't tolerate long nationwide rail tie-up.

CONSTRUCTION—should be a stabilizing force in '60, the expected 2% increase over-all being due to price rises. Housing starts, 1,325,000 in '59, may decline to 1,200,000. Private construction of all types should rise about 16%, industrial about 26%.

Comparison of U. S. interest rates with those abroad shows that differences have narrowed somewhat in the postwar period. If monetary policy is designed to attract and hold foreign funds it must concern itself with financial trends abroad, as well as domestic economic conditions.

Washington

Pending Issues: Economic Controls; Debt Management; FDIC Assessments

THOMAS W. MILES

WILL inflationary pressures scare the country into setting up detailed Government controls over the economy?

Will the country abide by the "stern self-discipline" advocated by the Administration along with monetary and fiscal controls?

Or will it trifle with just a little inflation?

These are the choices that this second session of the 86th Congress faces in the few months before the party conventions and Presidential election.

An idea about what some of the thinking is with respect to controls is contained in the staff report of the Joint Economic Committee. This is the report on the committee's $200,000 study of employment, growth, and price levels which was headed by Senator Paul H. Douglas (D., Ill.). Nearly 100 witnesses were heard in 40 separate days of hearings in the last five months.

Committee's Report Now Due

The committee's own recommendations for legislation are to be submitted about the time this February issue of BANKING is to be published. But whether or not the committee concurs completely with the staff report, the ideas brought out in it are bound to have an influence in Congress. The committee itself can only recommend; it cannot initiate legislation.

The staff report would pour a fluid economy into a porous container requiring an increasing number of selective controls. It calls for selective controls, feeling that the general controls applied by the Administration have been selective in their effects, possibly in the wrong ones. And when various segments of the economy slip out of these selective controls others undoubtedly will be suggested. They will be something to keep up with.

The Joint Economic Committee economists would develop selective controls over fixed investment, consumer credit and inventory investment, and bank loans. They would also continue to use general controls, making some changes in the method of their application.

For instance, the staff economists would consider adopting the Canadian system under which the discount rate is tied to open market interest rates, or perhaps doing away with member bank borrowing entirely. They would call upon the Federal Reserve either to justify the practice of lowering reserve requirements to supply reserves for growth or to abandon it. They want the Fed to give up the bills-only policy "in its present rather doctrinaire form" and be prepared to deal in long-term securities. And they would like to give the Open Market Committee's administration of monetary policy to a smaller Board of Governors of the Fed.

Whose Prices Are Rigid?

The Joint Economic Committee staff complained of "price rigidities" which it attributed to the "market power" of big corporations and organized labor in the control of pricing. Their report urged vigorous application of the antitrust laws to corporations but not to the problem of union market power. The latter would be "neither feasible nor desirable" in the opinion of the staff.

Still pending from last session is a bill, S. 63, submitted by Senator Prescott Bush (R., Conn.) to give the Federal Reserve standby power to control the excessive use of consumers' instalment credit. Consideration was put off by the Senate Banking and Currency Committee until after the Joint Economic Committee recommendations were received.

Finance Charge Bill

Much more likely than a consumer credit control bill would be one requiring the disclosure of finance charges in connection with extensions of consumer credit. Senator Douglas submitted one on the day after the opening of the session. His announced purpose is "to require lenders and vendors to tell the truth about interest rates and finance charges." Senator Douglas does not conceive of his bill as a credit control measure.

He contends that his consumer labeling requirement would "restore consumer sovereignty to the America marketplace where consumer credit has been transformed from a financing mechanism to a merchandising tool, where loans are disguised as sales — to the detriment of our economy."

Nowhere in President Eisenhower's State of the Union Message

did he talk about selective controls. The antidote that he urged for steadily rising costs and prices is the "stern self-discipline" cited earlier in this article. His admonitions about the evils of inflation were just as plain and as convincing as those he used last year in fighting an unrestrained spending program. He talked in terms of the personal application of inflation that people everywhere will understand. Take this paragraph:

President v. Inflation

"We must fight inflation as we would a fire that imperils our home. Only by so doing can we prevent it from destroying our salaries, savings, pensions, and insurance, and from gnawing away the very roots of a free, healthy economy and the nation's security."

The President was talking the language of plain people. His idea of countering inflation is to hold the Federal Government's expenditures below its revenues — expressed that simply. He interpreted a budget surplus as "a reduction in our children's inherited mortgage."

The President was most forceful when he talked about the big issue in his fight against inflation. That is for a freer hand in debt management. He wants Treasury freed from the "archaic restrictions" imposed by the 1918 ceiling of 4¼% set on Government bonds of five years or over.

Significantly the President stressed the costs of the "undesirable financing practices which the Treasury has been forced into." Only a few days earlier Secretary of the Treasury Anderson made the same point. It has been made before, but it can be made now with much greater effectiveness in view of the fact that interest charges alone are costing taxpayers $9.5-billion.

Senate Hearings on That 4¼%

The House Ways and Means Committee was unwilling last year to remove the ceiling. The move would have to originate in that committee, but it appeared likely at this writing that the Senate Finance Committee may hold hearings on the matter. This would serve to focus public attention on the issue.

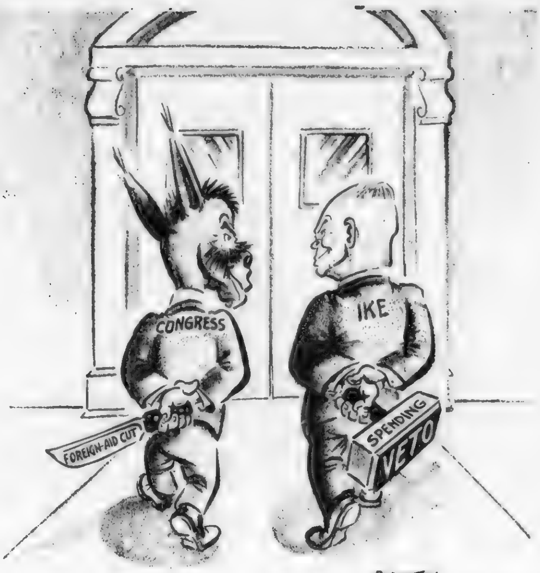
A good deal was said and written about it in connection with the Joint Economic Committee study. The staff report called the 4¼% ceiling "an arbitrary limitation which complicates the problem of debt management." And although the report called for repeal, it was not unconditional. Here is the staff's own summary of that point:

"The concern about high interest rates has its basis in disagreement about the appropriateness of policies for achieving our economic objectives. The 4¼% ceiling on interest rates on Government securities with an original maturity of more than five years is an arbitrary limitation which complicates the problem of debt management. But, though the interest ceiling should be repealed, modification of the policies that led to the present situation is a matter of much more pressing importance. Whether it wants to repeal the interest rate ceiling before basic reforms in monetary, fiscal, and debt management policy are put into effect, is a matter for Congress to decide."

The report has plenty to say about the strings it would tie to repeal of the rate ceiling. The report itself will be a source book for support of the fulminations that will be made in the next few months in Congress against tight money and high interest rates. But the appealing simplicity of the Administration's argument that the 4¼% ceiling is costing taxpayers real money will be hard to beat.

There was another ceiling that the Joint Economic Committee staff thought should be removed. That is the ceiling on the national debt. The report was unconditional about removing that "to reduce the destabilizing effects of the budget." Only last year Congress raised the permanent statutory ceiling on indebtedness from $283-billion to $285-billion and at the same time authorized a temporary ceiling of $295-billion during the fiscal year 1960. That debt has already reached $290-billion, the President reported.

Well, here we go again!



ROBINSON IN THE INDIANAPOLIS NEWS

The Debt and the Budget

Speaking of the debt, the President held out hope that it could be reduced by $4.2-billion in the fiscal year 1961. That hope is contingent upon the Congress not spending more than the President proposes to run the Government, and not using all or part of the favorable balance for tax reduction. If it is saved for debt reduction, it will make unnecessary an increase in the debt limit this year.

President Eisenhower took the edge off his Budget Message when he interpolated in his State of the Union Message the revenue and expenditure estimates in his 1961 budget. His news was good news—which made it all the more surprising.

The Administration anticipates revenues totaling $84-billion in the fiscal year 1961 beginning July 1, and expenditures of $79.8-billion. The difference is the $4.2-billion the Pres-

ident would like to pay off on the mortgage that our children will inherit.

The picture he revealed about the current 1960 budget is encouraging, too. It will have a $200,000,000 surplus, thanks to the activity of business. Revenues will be $78.7-billion and expenditures $78.5-billion.

The revenue situation was aided this year by a windfall of $266,000,000 from the Federal Reserve Board. The Fed normally pays the Treasury 90% of its earnings which this year amounted to $645,000,000. But as the result of a recent decision that a surplus equal to the capital subscribed by commercial banks is adequate, the Fed made the payment $911,000,000. This is the anticipated $645,000,000, plus $266,000,000 not anticipated.

It is known, for instance, that Ways and Means is anxious to do something about revising the taxation of cooperatives and oil depletion allowances. The taxation of cooperatives is so closely related to the A.B.A.'s fight for the Mason bill that it may provide the necessary opening to press it. The Mason bill, H.R. 7950, would bring the taxation of mutual financial institutions closer into line with that of commercial banks.

Bill's Author Moves Up

The bill's sponsor, Representative Noah Mason (R., Ill.), became ranking minority member of the committee early last month when Representative Richard Simpson (R., Pa.) died. In this position, Mr. Mason will be able to be even more influential in pressing his bill. The important thing is to keep pressure for the bill by way of showing interest and need, and as part of a general educational campaign for the public and Congress.

The bank merger bill, S. 1062, which Senator A. Willis Robertson piloted through the Senate last year is bogged down, for the time being at least, in the House Banking Committee. At this writing it is hard to say what fate is in store for the bill because the temper of this Congress has not yet been tested adequately.

It is too early even yet to figure how the battle over Federal spending will go. The Americans for Democratic Action have been calling for "a Federal budget adequate for the nation's needs and realistically related to economic growth." And a week before the President's Budget Message the Conference on Economic Progress published a budget study

The "Staff Report": Member Banks Reserve Requirements

The letter which follows was sent to Senator Paul H. Douglas, chairman of the Joint Economic Committee of Congress, by Jesse W. Tapp, chairman, Bank of America N.T.&S.A., Los Angeles, and chairman of the A.B.A. Economic Policy Commission:

As chairman of the Economic Policy Commission of the American Bankers Association, I should like to comment on the observations regarding member bank reserve requirements which are contained in the recently published "Staff Report on Employment, Growth, and Price Levels."

As you may know, this commission several years ago conducted an exhaustive study of this subject and in 1957 published the results of its findings in a document entitled "Member Bank Reserve Requirements." This is undoubtedly the most comprehensive study that has been published regarding this complicated subject and we naturally feel that it deserves the attention of those who are interested in trying to achieve a better Reserve System. If, therefore, the Joint Economic Committee plans to include any suggestions on this subject in its report, we would hope that consideration be given to the applicable sections of our study. A copy of it is going forward to you under separate cover.

The point in the Staff Report which concerns us most is the suggestion that the reserve requirement ratios should be maintained at their present high levels. This view is one with which not only most bankers but also, we believe, most students of money and banking would disagree.

Apparently the chief consideration behind this position is that the immediate gain to the Treasury would be greater if the Federal Reserve were to continue to increase its holdings of Government securities over the years. To those who have made any study of this subject, this would clearly seem to be insufficient grounds for such a proposal. There are many other considerations which deserve far more weight, most of which are not mentioned in the Staff Report.

These considerations are discussed in some detail in our study in Chapter III, "The Overall Level of Reserve Requirements." Some of them are summarized in the enclosed article which appeared in the February 1958 issue of BANKING magazine.

THE Staff Report does refer briefly to one of these other considerations; namely, the greater "leverage effect" that would result from lower reserve requirement ratios. It does not, however, bring out the fact that this greater leverage might be advantageous from the standpoint of the effectiveness of monetary policy.

Among the considerations not mentioned at all by the Staff Report are the following: the effects on the capacity of the banking system for meeting the credit requirements of an expanding economy; the competitive position of banks vis-à-vis other financial institutions; the effects of large-scale open-market purchases by the Federal Reserve on the supply of liquid assets held by the banks and the public; the implications for Treasury debt management of concentrating a larger proportion of the Government debt in the Federal Reserve banks; and the possible pressure on the Reserve banks' gold certificate reserve ratios which might result from a further substantial increase in their deposit liabilities (member bank reserve balances) which would accompany an increase in their holdings of Government securities.

THIS mere enumeration clearly suggests that the main criteria that should be applied to this question from the standpoint of the public interest are much broader than the comparatively unimportant matter of the incidental, direct, short-run effects upon the income of the Treasury.

It is apparent, moreover, that the authors of the Staff Report have greatly overestimated the magnitude of this latter factor. They present no estimate of the potential gain in revenue to the Treasury, to be sure, and this

(CONTINUED ON PAGE 120)

with the subtitle, "We can afford to serve our human needs." Leon H. Keyserling, former chairman of President Truman's Council of Economic Advisers, is prominently identified with the conference. These are typical of the pressures that will be on the Administration and the Congress in such an important election year.

When the panel discussions of tax reform closed December 18 before the House Ways and Means Committee, Chairman Wilbur D. Mills issued a statement closing the door to any broad proposals for tax revision this year based on those discussions. At the same time Under Secretary of the Treasury Fred C. Scribner, Jr., urged that "we avoid piecemeal tax relief amendments." Neither of these statements, however, preclude the possibility of legislation to meet particular situations.

Behind the three bills revising the base for computing the assessment of banks for membership in the Federal Deposit Insurance Corporation there is quite a story. Two identical bills, H.R. 8916 and 8928, were introduced in the House and one, S. 2609 (identical, except for certain housekeeping provisions), in the Senate late in the first session.

The idea was not to push them through at the time, but rather to get them up for consideration and then move to get action early this second session. Until late this fall, revision looked like a shoo-in. But not so any more.

Some Want a Choice

The situation has become confused. A few banks, including some whose assessments would be lowered under the new computation, want the alternative of continuing the present method. The FDIC is opposed to any alternative method. It wants uniformity in the simplified method of assessment in order to make offsetting cuts in personnel costs. A simplified method has been repeatedly recommended by the Comptroller General and the FDIC is anxious to comply.

Until the problem is resolved, the Senate and House Banking and Currency committees have been reluctant to push the matter. This is especially so in view of the fact that they have heard very little from the overwhelming number of banks which stand to benefit from the change. The American Bankers Association, which has completed its consideration of the revision, will testify in support of the House bills when hearings are started. (END)

The "Staff Report": The Growth-Inflation Problem

The following letter was sent to Senator Paul H. Douglas, chairman of the Joint Economic Committee of Congress, by Casimir A. Sienkiewicz, president, Central-Penn National Bank of Philadelphia, and chairman of the A.B.A. Committee for Economic Growth Without Inflation:

THE foreword to the Staff Report on the "Study of Employment, Growth, and Price Levels" states that the Joint Economic Committee wishes to obtain the widest possible comment before preparing its own report. We wish to commend your committee for this objective and to express our regret that it will not be achieved. You are doubtless aware that copies of the report were not generally available until a few days ago and we are told that, unless comments are received within a day or two, they will be too late to be considered in preparing your report.

We assume that this happenstance has been due to unavoidable delays in printing the staff report. However, it is certainly most unfortunate that this should thwart your desire to obtain wide comment on its contents. If more time had been available, the A.B.A. Committee for Economic Growth Without Inflation would have welcomed the opportunity to study the staff report carefully and to present our comments in detail.

Not having had time even to read all of the report, let alone give it the careful study it deserves, we hesitate to comment on it at all. However, in view of your expressed wish to receive reactions, we do offer a few scattered and hastily composed comments.

In general, regardless of the soundness of its policy recommendations, the report is certainly a brilliant tour de force. It is truly remarkable that any group of men could put together such a document in the short time at their disposal, covering as it does such a wide range of complex economic problems. By the same token, however, its very comprehensiveness suggests that some of the problems dealt with cannot have been thoroughly explored in such a short space of time by any group of men no matter how gifted.

ONE of the chief virtues of the report, in our judgment, is its emphasis on the causes and character of economic growth and its recommendations for promoting long-run economic growth. We would urge that these recommendations receive careful study. We would further urge that in shaping policies to promote growth, care should be taken to avoid policies which would be inflationary and which would therefore tend to be self-defeating. Indeed, we would suggest that policies to combat inflation should be added to and considered as part of other policies designed to encourage growth.

In this connection, we were especially interested in the evidence presented in the staff report that inflation in consumers' "overhead costs" interfered with economic growth in recent years (pages 81-2). This clearly underlines the importance of avoiding inflation in order to promote growth. In view of this, we find it difficult to follow the reasoning behind the suggested prescriptions which, as the authors themselves concede, would be inflationary.

IT seems to us, on the basis of admittedly inadequate study, that there are other serious non sequiturs in the report. For example, it is pointed out that monetary policy has caused residential construction to behave contracyclically and this is presumably highly desirable. On the other hand, monetary policy is elsewhere criticized as being quite ineffective and in other places as having been so powerful that it has interfered with economic growth. We find it difficult to reconcile these seemingly conflicting views.

Similarly, we applaud the recommendation that Federal fiscal policy should aim at substantially greater surpluses and hope that your report will emphasize the basic importance of such a policy. On the other hand, it is hard to reconcile this with the contention that fiscal policy has been excessively restrictive in recent years. As

(CONTINUED ON PAGE 125)

Henry C. Wallich

Robert P. Mayo

William R. Biggs

A Panel Assesses the

FOLLOWING the steel settlement, business observers seem to be unanimous in predicting an active economy in coming months; and, as shown in the article starting on page 43 of this issue, a vigorous business trend is accompanied by a strong demand for bank loans and other capital. This means that interest rates are unlikely to ease off very soon. In the following pages the outlook for interest rates is discussed by four observers in key positions. Each reviews the prospect from his own particular vantage point: Mr. Wallich sees the over-all picture as a member of the President's Council of Economic Advisers; Mr. Mason is close to the housing situation as Administrator of the Housing and Home Finance Agency; Mr. Mayo, Assistant to Secretary Anderson, brings a Treasury viewpoint; and Mr. Biggs, that of an economist and banker.

Short-term and long-term interest rates, of course, respond to somewhat different demand and supply factors, and their relative behavior this year depends in part on what the Congress does about the 4¼% ceiling on Government bond coupons.

The Trend of Interest Rates Should Be Higher

WILLIAM R. BIGGS

Chairman, Brookings Institution, and economist and vice-president, The Bank of New York

ASSUMING in 1960 a further improvement in business in the industrial countries of the West, and moderately rising prices for manufactured goods, brought about by the current and further wage increases, the trend of interest rates should be higher.

Inventory accumulation, increased consumer debt, and higher capital expenditures by industry will all require additional borrowing, and the banking system is already fully loaned. Offsetting factors will be the larger cash flow of industry from depreciation and earnings, lower residential building, and lower *new* cash requirements from government—national, state, and local—of $6-billion to $8-billion. Higher interest rates and lower returns on equities should serve to increase the supply of fixed interest capital.

Were domestic demand the only factor in the situation, one might conclude that money rates already discount a good deal of the pressure for capital, provided the present recovery does not reach inflationary boom proportions. However, with an adverse balance of payments and with such substantial foreign balances in this country, because of high short-term interest rates, one cannot disregard the foreign situation.

Business prospects in the other industrial countries of the world are even brighter than they are here. Rising levels of activity abroad will require substantial capital and will involve higher money rates abroad. As a result, there seems likely to be a flow of foreign balances out of this country back to the industrial countries of Europe. Furthermore, it will be necessary to maintain short-term interest rates attractive to foreign holders of dollars if the outward flow of balances is to be limited to managable proportions.

Long rates may rise proportionately more than short

Norman P. Mason

The President on Debt Management with a Ceiling

IN the management of the huge public debt the Treasury is unfortunately not free of artificial barriers. Its ability to deal with the difficult problems in this field has been weakened greatly by the unwillingness of the Congress to remove archaic restrictions. The need for a freer hand in debt management is even more urgent today because the costs of the undesirable financing practices which the Treasury has been forced into are mounting. Removal of this roadblock has high priority in my legislative recommendations.—From the *Message on the State of the Union.*

Money Rate Outlook

rates if the interest ceiling on long-term Governments is removed by Congress. Both for anti-inflation and debt management reasons, the Treasury is likely to try to extend the maturity of its debt. It should be remembered that the budgetary deficit of 1959 was almost entirely financed through increase in short-term debt and that the decline in long-term bond prices has taken place without important additions to the supply of long-term bonds on the part of the Government. With the ceiling removed, there seems every reason to think that the supply will be increased.

Prospect: An Improved Supply of Mortgage Funds

NORMAN P. MASON
U. S. Housing Administrator

AS the first half of 1960 progresses, I look for an improvement in the mortgage market. Several factors which have led to tightness in home financing should lose some of their impetus.

With the Federal budget being brought into balance, there will be little or no new Treasury borrowings as a drain on the market. In 1959, we had to face a substantial demand for funds for this purpose.

During 1959, the high level of housing starts, with an accompanying large turnover of existing homes, created a heavy demand on the mortgage money market. In round figures, it took $50-billion to buy all the houses that went through the marketplace. This volume led to a $15-billion increase in the outstanding mortgage debt. The demand, however, was heavier in the first half of the year. The lower rate of starts during the second half of the year placed less demand for mortgage funds during that period.

As I see it, the market should be over the effects of the temporary October drain upon savings to finance individuals' purchases of Treasury "magic 5s."

Some increase in business borrowing is expected as steel inventories are rebuilt, and some increase in business plant and equipment expenditures will take place. However, I do not expect a great upsurge in capital expansion, such as we experienced in 1955-57.

With increased incomes we can expect savings levels to be at least as high as during 1959.

The net effect of these developments in the general money market should be an improved supply of mortgage funds. I expect that the FHA 5¾% mortgage interest rate will become more attractive to investors during the spring of 1960. There probably will also be some easing in conventional mortgage interest rates, which presently average about 6¼%.

Real Possibility of a Decrease in the Public Debt

ROBERT P. MAYO
Assistant to the Secretary of the Treasury

IN 1959 an almost unprecedented volume of demands for private credit extension ran headlong into the U. S. Treasury's deficit financing job of adding about $8-billion to the public debt. It is no wonder, therefore, that interest rates rose during 1959. It is also no wonder that interest rates in the short-term area rose faster than longer-term rates, reflecting in part the

fact that the Treasury was powerless to do any market financing beyond five years for most of the year because of Congressional unwillingness to remove the 4¼% interest rate ceiling.

Until Congress acts, the ceiling again poses serious problems for the Treasury Department this year. These problems are accentuated by the fact that the volume of publicly held under-1-year debt has increased from $51-billion to $60-billion in the past 12 months, and the volume of debt coming due in one to two years has risen from $8-billion to $17-billion.

The 1960 outlook for over-all changes in the amount of outstanding Federal debt, however, is much more favorable than a year ago. There's a real possibility of a decrease in the public debt during the calendar year 1960 as a whole, assuming that our economy continues to grow steadily and that the Government is successful in keeping budget expenditures under very close control. With this improved fiscal outlook, the Federal Government will be supplying funds to the market through debt retirement as the result of substantial tax collection surpluses this spring, and the amount of seasonal deficit next fall should be less than in any of the past five years.

As a result, one of the two major reasons why Treasury financing has been pushing up short-term interest rates will be substantially eased. The second factor—the 4¼% interest ceiling on market borrowings longer than five years—will depend upon the Congress. As you know, the President considers the removal of this barrier to flexible debt management as a top priority item in his 1960 legislative program.

As far as the over-all outlook for interest rates is concerned, it is an open question, of course, as to what extent the relaxation of Treasury Department demands on the market will be offset—or more than offset—by the further expansion of private credit now that the steel strike has been settled.

Factors that Will Influence Interest Rates

HENRY C. WALLICH

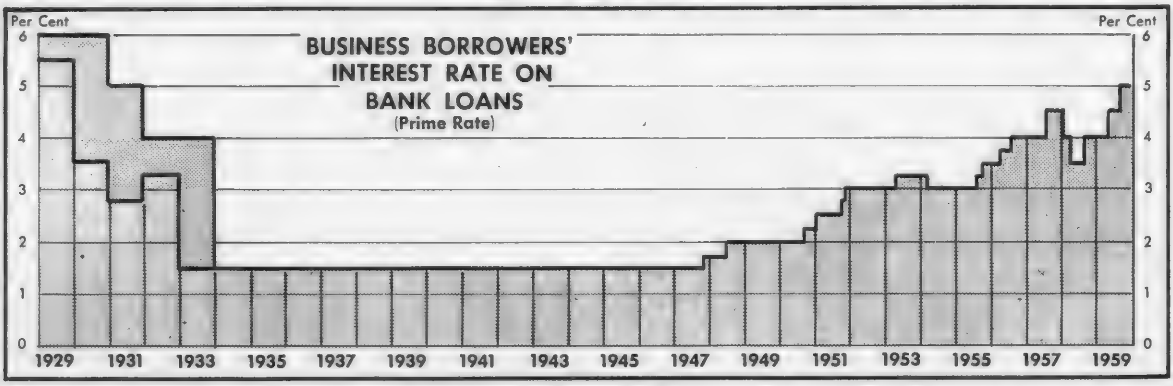
Member of the Council of Economic Advisers

INTEREST rates in 1959 were determined primarily by the domestic business situation and outlook, by the financing of the Treasury's needs, and in some measure by the international flow of funds, together with the flow of savings into financial institutions and the accumulation of liquid resources by corporations. A particularly interesting development was the rise of shorter-term rates (all but the very shortest) above long-term rates. This led to a pattern that was not unfamiliar during the 1920s and earlier and reflects in part the inherently greater volatility of short-term rates. More particularly, however, it indicates the pattern of demand for funds in the various sectors of the market, especially the concentration of Treasury financing in the area up to five years made necessary by the 4¼% interest rate limitation.

In 1960, some of the same influences may be expected to bear upon rates. A rising level of income will make possible greater financial savings, although this outcome naturally depends upon decisions made by the income recipients. Improving business, on the other hand, will add to the demand for funds. The role of the Treasury is expected to undergo a significant change, from net borrower to net supplier of funds. Congressional action upon the President's request for removal of the 4¼% interest ceiling for maturities over five years will have an important bearing on the pattern of rates. Removal of the limitation would permit the Treasury to distribute its financing requirements over a wider range, market conditions permitting, and would so reduce pressure upon the area up to five years.

Meanwhile, the business upswing abroad has brought some increases in interest rates in England, Germany, and elsewhere. Given the rapidly intensifying relationship among international financial markets, developments abroad will also play a role in the determination of interest rates in the American money and capital market.

As pointed out on page 45, the prime rate is regarded by many as the most significant interest rate. In the first five years of the chart below, the gray area indicates a spread between the minimum and maximum prime rates, as they were quoted at that time



Money Rates as a Political Issue in the Past

HERBERT BRATTER

TODAY the interest rate is a major issue in politics. But this is nothing new. It is just the old, historic money issue in modern guise. The money issue is as old as the nation. Probably it is as old as civilization.

Ever since colonial times, in this country "money" has been a political issue. It was such when, during the "French War," Massachusetts printed "bills of credit" to pay its troops. By the early 18th Century fiat paper money was circulating throughout the colonies. Concerned, England prohibited new colonial note issues. The consequent resentment helped bring on the Revolution.

The Revolutionary War gave birth to the ill-famed Continental currency — "not worth a Continental" — since the public thought inflation preferable to taxation. With independence came the establishment of the U. S. and of the dollar, then nominally based on bimetalism. But coin remained scarce for years. Alexander Hamilton persuaded the Congress to charter, in 1791, the United States Bank, a mixed private and Government note-issuing institution capitalized with Government bonds.

The United States Bank was allowed to expire in 1811. Numerous state banks issued notes recklessly. Currency disorders ensued. A second United States Bank was created in 1816 with a 20-year charter. Banking and currency continued to be a major political issue, culminating in Andrew Jackson's successful fight against the bank. Farmers, often heavily in debt, wanted cheap and plentiful money. President Jackson and the plain people had their way. Now state banks, sometimes state-owned, multiplied, issuing "torrents of paper money." The situation became chaotic.

Continental currency

CULVER SERVICE

Pres. Jackson, says the caption on this old print, is here setting out to his inauguration, cannily taking a second horse. Rarely has politics played so important a part in governmental finance as during his administration

WIDE WORLD

This was the time of wildcat banking. During the War of 1812, state banks had been regarded as pillars of the nation, a Senator later recalled; but by the late 1830s they had become the nation's "caterpillars." This unsatisfactory condition prevailed from the Jackson administration to Abraham Lincoln's. A movement to create another United States Bank resulted in Democratic opposition. The 1856 Democratic platform opposed "subjecting the nation to a concentrated money power." Not until 1863, during the war, did Congress approve a national banking system; and this, even after they returned to power, the Democrats did not dare overthrow. Meanwhile, in 1862, United States notes, or "greenbacks," having nothing behind them but the U. S. Government's fiat, made their appearance.

In 1868 both party platforms acknowledged money as an issue. By 1874 inflationists formed the Greenback Party. From 1861 to 1879 the dollar remained a strictly paper unit, inconvertible. In 1873 in a revision of the coinage system, the standard silver dollar, which had not circulated for a generation, was officially dropped. Soon afterwards, with the development of silver mines out west, a clamor arose for restoration of bimetalism, and the halls of Congress reverberated with cries over the "Crime of '73," i.e., the closing of the mints to silver. The "sound-money" policies of the Government were blamed for the poor business conditions of the 1870s.

The result was enactment of the 1878 silver purchase act, a subsidy to the mines. Silver certificates were invented to force the metal into monetary circulation by proxy. In 1890 by another law silver buying was increased, while abroad bimetalism was being abandoned and silver demonetized with depressing effects on its

price. President Grover Cleveland called the Congress into special session in 1893 to strengthen confidence in the dollar by repealing the silver acts.

But the money issue was not banished. At the 1896 Democratic Convention William Jennings Bryan achieved national fame with his "cross of gold" speech. New gold processes and discoveries gradually drove bimetalism from the political stage. However, the early 1900s witnessed banking and monetary crises. "Teddy" Roosevelt was nicknamed "our chief panic maker." Congress created the National Monetary Commission in 1908. Its recommendations of 1912, after considerable political maneuvering and modification, were in 1913, under the new Democratic Administration, the basis for the creation of the Federal Reserve System. The aim was to counteract not inflation, but deflation, for by and large the post-Civil War decades had been characterized by economic instability and depressions.*

CULVER SERVICE

Few politicians have based more oratory or more wrong conclusions on monetary matters than William Jennings Bryan

This cartoon in *Harper's* for April 27, 1895, was captioned: "A perilous situation. The producers of the country in danger from silver demagogues and populists"

CULVER SERVICE

Again in 1920 and 1921, during the postwar deflation, the money question burned hot in the Congress, when speculators charged the Fed with "injuring agriculture." Senator Tom Heflin of Alabama became and for years remained a constant critic of the Federal Reserve. The post-1929 depression made monetary policy a bigger issue than ever. With the New Deal came the famous Thomas Amendment, authorizing issuance of greenbacks. Senator Key Pitman, although without authority, committed the U. S. to the London Silver Agreement, which President Roosevelt ratified by Executive Order. Thereafter silver agitation flourished, culminating in the 1934 Silver Purchase Act. Meanwhile, in 1933 gold parity was suspended and devaluation enacted in early 1934. Controversy raged.

"Spending," "reflation," "inflation,"—these were different names applied to the money issue of the later 1930s. After World War II the Fed became "an engine of inflation." The "accord" of 1951 restored the Board's independence, but not without political debate. With the Eisenhower Administration in 1953 came charges of a "hard money crusade." U. S. Treasury debt management came in for Democratic criticism on Capitol Hill. Many of the political brickbats aimed at Secretary George Humphrey and Under Secretary W. Randolph Burgess ricocheted onto the banks, alleged beneficiaries of high interest rates.

* Cf. "40 Years after the National Monetary Commission," BANKING, August 1948.

Lessons of Recent Money Rate History

THE price of money today is high by the standards of recent years and promises to remain high this year for as long as we can see ahead.

Some observers indeed see the 1960s as a decade of tight money, the World War II and Korean War expansion of our money supply having by now worked itself into the economic structure. Others remind us that, just as the economy goes through cycles of expansion and adjustment, so money rates rise and fall and tightness is followed by ease. There may be something to both viewpoints.

For a meeting of minds the speaker and the listener need to define their terms. "Tightness" and "ease" are relative terms.

For example, money is very dear when compared with what we had grown accustomed to in the 1930s and the war years, when bonds were pegged by the

Federal Reserve. But it does not look so dear when we compare it with rates prevailing in the 1920s; or when we compare it with interest rates in other countries.

As we all know, the interest rate is merely the price of credit. It marks the equilibrium between supply and demand; the supply of savings or of bank credit measured against the demand for funds. Our economy currently is in an expanding phase. While for the present the Federal Government is not a net borrower, demands are heavy for money to finance inventory rebuilding, consumer purchases, plant and equipment expansion, state and local government needs, and the like.

The Federal Reserve, it is safe to assume, is being very circumspect in permitting the money supply to grow in terms of long-term requirements. Central bank restraint versus heavy demands spell firm interest rates.

Three Tight Periods Since 1951

Since the famous accord between the Treasury and Federal Reserve in 1951, we have experienced three periods of relatively tight money. It may be profitable to review those experiences as we proceed through the present upswing in the cycle. While, as mentioned, the interest rate is the price of money, in discussing it we must make clear to ourselves as well as others which interest rate we have in mind.

Of special interest for banks, the Board compiles average rates charged by banks on short-term loans to business, by size of loan and area. Included in the latter series is the "prime rate," which many bankers regard as the most significant interest rate. The prime rate however is somewhat sluggish and is not sensitive to daily or weekly variations in demand and supply. (See chart, page 42.)

A glance at the Federal Reserve Board's chart, "Long- and Short-term Interest Rates" (see *Historical Supplement to Federal Reserve Chart Book,* September 1959), which traces changes in the yields on prime commercial paper and railroad and corporate bonds from 1866 to date, suffices to show that the movements of short-term rates are more frequent and more extreme than long-term rates. That short-term rates should be the more sensitive to temporary changes in demand and supply of capital is readily understandable. Their behavior in business cycles however is not always predictable. Nor is that of long-term rates. Therefore, it may be risky to base a course of action on the assumption that what happened last time is going to happen this time.

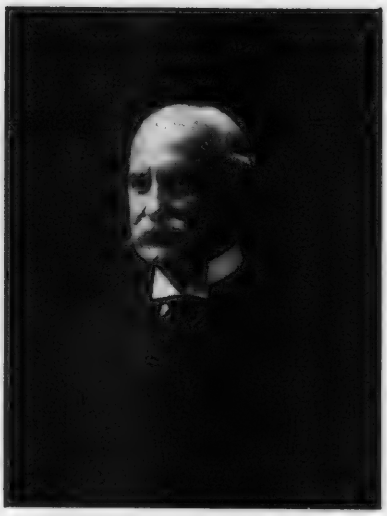
A Recent Interest Rate Study

A study recently published by the International Monetary Fund is of interest in this connection: *The Relationship between Long-term and Short-term Interest Rates in the United States,* by Richard Goode and Eugene A. Birnbaum (*Staff Papers,* October 1959). The authors concluded that the more active monetary policy of recent years has resulted not only in fluctuations in the general level of interest rates but in sharp changes in the relation between the long- and short-term rates.

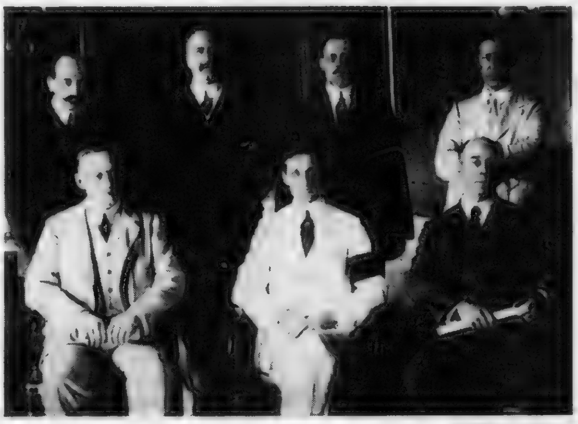
From 1954 to 1957 the spread between the two greatly narrowed. For nearly 25 years before 1956-57 a substantial excess of long-term over short-term rates

(CONTINUED ON PAGE 136)

Sen. Nelson W. Aldrich of Rhode Island headed the National Monetary Commission created in 1908. Its recommendations grew into the basis of the Federal Reserve System



CULVER SERVICE



HARRIS & EWING

Ready to take the oath of office, the first Federal Reserve Board posed in the office of the U.S. Secretary of the Treasury, William G. McAdoo. *Seated from left to right* are Charles Hamlin, first governor of the Board, Mr. McAdoo, and Frederic A. Delano; *standing behind, from left to right,* are Paul M. Warburg, John S. Williams, W. P. Harding, and Adolph Miller. This was in 1914.

***Below,* the then President signs the dollar devaluation bill (January 30, 1934), in the presence of Herman Oliphant (Treasury), Treasury Secretary Morgenthau, Federal Reserve Board Governor Black, Prof. George Warren, New York Fed Governor Harrison, and Prof. James Rogers**

WIDE WORLD

BETTER METHODS & SYSTEMS

Check-Credit Operations

A report from the birthplace of this service, The First National Bank of Boston

As every banker knows, check-credit was born in The First National Bank of Boston about five years ago and became a husky member of the banking family. The plan was the idea of Roger C. Damon, now president of the bank.

A report on the care and feeding of the young service at its birthplace comes from John W. Ewell, loan officer at the First. Check-credit, he explained to a NABAC group, is part of the bank's instalment loan department, which is an independent unit using other agencies in the bank — tabulating accounting, etc.—for bookkeeping services.

This results in efficient automation and excellent auditing control, as no operation is centered at one point, Mr. Ewell said. Monthly statements and payment notices are prepared and mailed by the tabulating personnel without any review by the First Check-Credit Section. The auditing department gets the daily journals and trial balances directly from the tabulating department. All adjustments initiated by the Section are reviewed daily by the accrual section of the auditing department.

Interest is taken into earnings on each statement date (the same as demand loan interest) and there is no computing of late charges; if a payment is overdue, the interest continues on the outstanding loan balance.

How Credit Is Used

The First's experience has been that 96% of the accounts show open loan balances. Average use of the maximum credit runs about 65%; there's a slight rise at tax time. About 15% of the accounts are "riding the top" — that is, they never accumulate an appreciable amount of available credit. However, the vast majority of this group are holding smaller lines.

Charge-offs are running slightly less than on personal loans and represent about one-third of 1% of the total amount advanced.

In 1955, when the plan started, the bank's first thought was that credit standards must be kept very high for this type of lending, Mr. Ewell said. "However, experience rapidly taught us that we could **use normal personal loan requirements with excellent results.** In fact," he continued, "we have come to learn that our standards for personal loans were actually too high, and could be reduced without appreciably increasing our loss experience.

"In all our literature and in interviewing applicants **great emphasis is placed on the individual's applying for his total annual requirements for taxes, insurance, vacations, tuition, etc.** In other words, if the customer has a $300 tax bill he wishes to pay, but can readily afford a monthly payment of $50, the effort should be made to seek a maximum credit of $600 rather than $300. This technique benefits

Staff Gets First News on Automation Plans

Chase Manhattan Bank, New York, will centralize and automate a substantial part of its check handling operations beginning in 1961 —and the first people to hear about it were the employees.

In making this announcement, the *Chase Manhattan News* added that when the new system becomes effective, the processing of all checks drawn on the bank will be centralized in a division of the Operating Department, which will use automatic paper-handling equipment and medium-sized computers.

The newspaper quoted Harold F. Moeller, executive vice-president, operations: "Although the new system will require less personnel, no regular employees currently engaged in this work will be released from the bank due to the changes. The transition to the new system will not take place overnight. As it does take place, the bank's normal growth will provide opportunities to transfer to other activities staff members who will no longer be needed in their present assignments. Then, too, we probably will not employ as many new people."

Mr. Moeller said it was expected that conversion to the new system would be completed by 1963. As a first step all checking accounts will soon be numbered. The bank now handles 300,000,000 checks a year, and expects the volume will reach 500,000,000 in 10 years. "In view of this," Mr. Moeller told the staff, "we have to adopt better methods of check handling and deposit accounting in order to hold down substantial and steadily increasing operating costs."

both the customer and the bank. First, the borrower repays his initial loan more rapidly, thereby saving on interest charges, and secondly, the bank is saved the nuisance of increasing the maximum credit at a later date."

What Advertisers Did

In four and a half years the First approved an average of 80% of the applications, but the figure can vary with the amount and type of advertising. A splurge on the classified pages of local newspapers, using a coupon, brought a heavy response, and the campaign was dropped when the bank found it was declining 46% of the credit requests. More than 3,000 accounts have been opened through the mail, without personal interview.

"Actually," said Mr. Ewell, "we have averaged $10 in advertising costs for each account opened."

Newspapers have proved to be the best media for attracting new business, although direct mail and statement stuffers "have been very successful in enticing present bank customers to sign up."

24,000 Open Accounts

First National of Boston has about 24,000 open accounts showing a loan balance of $9,300,000 and available credit of $5,100,000, Vice-president David T. Scott told a recent meeting of the Pennsylvania Bankers Association. Asserting that bankers disagreed with critics who say check-credit is inflationary, he asserted: "Banks haven't changed anything by offering personal lines of credit. They are offering the consumer an intelligent, systematic and economical asset to help him keep his purchasing power on an even keel. Just as before, if the bank's average borrower is honest and has good sense, loans will be repaid. If he isn't, banks will have their problems as heretofore."

5 Fed Offices to Test Check Handling Equipment

HIGH-SPEED electronic equipment will be installed in five Federal Reserve banks to test its performance and feasibility in handling magnetic ink checks.

Each pilot installation will use the product of a different manufacturer. Here is the scheduled assignment:

Boston bank, National Cash Register Company; New York, Ferranti-Packard Electric, Ltd., and Pitney-Bowes, Inc.; Philadelphia, International Business Machines; Chicago, Burroughs; San Francisco, National Data Processing Corporation.

The purpose is to test the equipment under the varied requirements of check-handling. The machines will use magnetic ink character recognition as the common machine language, in accordance with the A.B.A. Bank Management Commission's recommendation.

Selection of the five Reserve banks was on the basis of the expected volume of commercial bank checks printed with magnetic ink numerals identifying the drawee banks and making possible automatic sorting.

A Bank's Emergency Preparedness Plan

A COMPLETE emergency preparedness program planned by and carried out in a sample $5,000,000 bank is being distributed by the Pennsylvania Bankers Association to its members.

Published as a booklet, the plan is based closely on the program in effect in the Ashland National Bank which has 12 employees. The 16 pages cover all phases of preparedness planning, from the board's enabling by-laws and resolutions to the reconstruction of records blueprinted at the bank's alternate headquarters.

Included are a description of the bomb shelter and a listing of the food and drink supply to care for a staff of 15 for a maximum period of 15 days. The duplicate records program is also described.

The prototype plan provides a detailed list of the costs of each phase, reaching a total of $777.55 as the full expense for the first year. Most of this cost is a one-time expenditure. Annual cost of records duplication is estimated at $201.10.

The booklet, titled "Emergency Preparedness Program of the Prototype National Bank & Trust Com-

(CONTINUED ON PAGE 110)

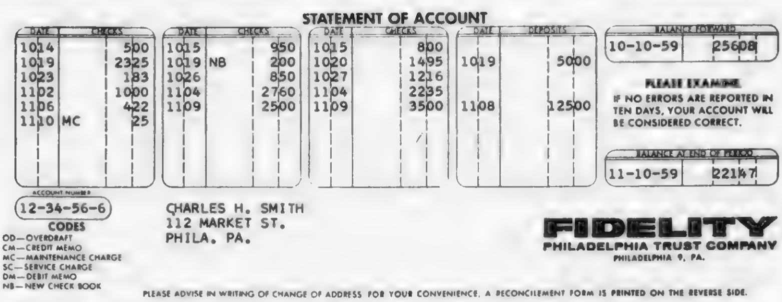
Fidelity-Philadelphia Produces Statements on Its Computer

THE Fidelity-Philadelphia Trust Company is producing its customers' monthly statements on high-speed computer equipment. President Howard C. Petersen said the move marked the first major operational step in the Philadelphia bank's transition to full automation.

The first statements were sent to 20,000 special checking account depositors of the Philadelphia offices. Soon all 50,000 of these accounts in the 25-office system will be included in the program.

The equipment will also enable the bank's suburban offices, which currently send statements every three months—to provide this service on a monthly basis. Eventually all the bank's accounts will be processed through the computer (RCA 501), Mr. Petersen said. Fidelity is the first bank in the country to use this equipment.

He added that the changeover was made "smoothly and efficiently only because of the splendid cooperation of our customers."



STATEMENT OF ACCOUNT

DATE	CHECKS	DATE	CHECKS	DATE	CHECKS	DATE	DEPOSITS
1014	500	1015	950	1015	800		
1019	2325	1019 NB	200	1020	1495	1019	5000
1023	183	1026	850	1027	1216		
1102	1000	1104	2760	1104	2235		
1106	422	1109	2500	1109	3500	1108	12500
1110 MC	25						

BALANCE FORWARD: 10-10-59 25608

PLEASE EXAMINE
IF NO ERRORS ARE REPORTED IN TEN DAYS, YOUR ACCOUNT WILL BE CONSIDERED CORRECT.

BALANCE AT END OF PERIOD: 11-10-59 22147

ACCOUNT NUMBER
12-34-56-6

CODES
OD—OVERDRAFT
CM—CREDIT MEMO
MC—MAINTENANCE CHARGE
SC—SERVICE CHARGE
DM—DEBIT MEMO
NB—NEW CHECK BOOK

CHARLES H. SMITH
112 MARKET ST.
PHILA. PA.

FIDELITY
PHILADELPHIA TRUST COMPANY
PHILADELPHIA 9, PA.

PLEASE ADVISE IN WRITING OF CHANGE OF ADDRESS FOR YOUR CONVENIENCE. A RECONCILEMENT FORM IS PRINTED ON THE REVERSE SIDE.

If Our Depositors Only Knew!

The article below consists of excerpts from an address made almost 24 years ago by the then second vice-president of the American Bankers Association. Orval W. Adams, who was speaking before the Montana Bankers Association, was at that time executive vice-president of the Utah State National Bank, Salt Lake City. He is now president of the Zions First National Bank, also located there.

The fight against inflation by the Association and its member banks has been a continuing one. Its current form is the program of the Committee for Economic Growth Without Inflation.

ORVAL W. ADAMS

WE, as individual bankers, have a responsibility and an obligation to inform our depositors to the best of our ability in regard to money, credit, and the elements of sound public finance upon which rest, to so great a degree, the banking structure and, consequently, the safety and earning power of the funds entrusted to our care.

Our first duty is to our depositors. Upon this we will all agree. But just what is the extent of this duty? Is our obligation to our depositors fulfilled by merely so managing our banks as in the ordinary course of events to insure the return to them of the moneys deposited by them, or do we not owe a further duty? Are we not charged with the responsibility of doing what we can to make their deposits worth having, to see that they earn something substantial, and to see to it that when repaid they are repaid in dollars of real value?

An Indispensable Man

The depositor is the very backbone of this nation. He is the man who is self-supporting, who saves, who bears the brunt of taxation, who supports the people and the Government. Without him life would be primitive indeed. Without him the man on relief would soon find himself in the position of being obliged to rely upon his own efforts for a livelihood. This is so obviously true that one wonders there should be resentment among these classes of the community when a word is said in defense of the depositor, a word which in effect means no more than a warning to these interests not to kill the goose that lays the golden egg.

We cannot be justified in keeping silent, when it is our duty to speak, by any plea that we must avoid partisanship.

Diversification in investments and loans, limitation in the amounts of loans, insistence upon the self-liquidating character of loans accepted by us, the preservation of liquidity, all these must be continued or our depositors be informed that we propose to venture their funds in disregard of some one or more of these principles.

Responsibility to Depositors

It is our duty to do everything in our power to make it possible for us to return to our depositors, when demanded by them, dollars not depreciated by Government fiat or by excessive Government borrowing. Merely to give back the same number of "counters" would be to fulfill but a legal, not a moral, obligation. When we observe forces beyond our control tending to render impossible the return of sound dollars to our depositors, it again is our duty to inform them of such facts in order that they may act in their own protection.

We know the importance of a tax-conscious voting citizenship. We know that the politician will do all in his power to prevent the people becoming tax conscious, that he will do this by borrowing instead of paying as we go, by raising revenues through indirect taxes wherever possible instead of through direct taxes. We know that the continuance of the present spending and borrowing policies of Government can lead to but one end, the destruction of the savings of our depositors. It is our duty to do what we can to make the people tax conscious, to show our depositors that visible taxes are but a trifling portion of the real tax burden, to show them not only the extent to which invisible taxes cut into their earnings and their savings, but also to show them how they are further taxed, as truly as though such impositions were called taxes, by the low interest policies of Government and by competition of Government with banks.

A Matter of Principle

In years past we have been considered as business leaders and advisers in our several communities. Our judgment has been sought. It has been assumed that we owed a duty to our depositors to advise with them respecting matters supposed to be more within our knowledge than within the knowledge of the average businessman. If such a duty was ever owed, then today it is in a peculiar sense imposed upon us by reason of the present condition of affairs in this country. We cannot justify ourselves in neglecting this duty by any plea that so to act would subject us to a charge of partisanship. As bankers we recognize that there are certain basic truths that have withstood all the fiery heat of experience; that they are free of all dross; that they persist. As bankers, we have learned that certain fiscal policies are inherently

"HELP!"

BY SWEIGERT FROM THE SAN FRANCISCO CHRONICLE

sound or unsound, constructive or destructive, irrespective of who may advocate or who may oppose them, no matter how intense public clamor may be for or against them. We know that fundamental principles in all realms of activity—physical, spiritual, mental, moral, and economic—cannot be abrogated or even suspended by the whims or edicts of men, no more than we can stay the operation of the laws of gravitation. As bankers, we are not concerned in partisan issues. It matters not to us by what party results are accomplished, but it does matter to us that sound principles be applied in government; that the teachings of history be not utterly ignored; that the principles upon which this country has been built be preserved.

What Bankers Can Do

Some things we can do. We can go to our depositors with the facts. We have their names and addresses, many of them we know personally. We can and should give them the whole story. Why don't we tell them that the Federal Government has been enabled to indulge in its wild orgy of spending, because we, the bankers of America, have loaned it the money that was placed with us for safety and sound investment by the wage earners, the professional men, the clerks, the widows, the domestics, the farmers, and all others who live within their means and save? Why don't we tell them that the Federal Government came direct to us and got the money and got it upon the Government's own terms? Why don't we remind them that it wasn't the bankers' money but the people's money? Why don't we explain to them our reasons for making such loans?

Government as a Customer

In the past we invested in Government bonds because we had been accustomed to think of such bonds as the safest of investments. Today we cannot explain our continued investment in such bonds upon any such ground. The explanation is rather to be found in the fact that, in common with every other line of business, the banks suffering from a worldwide depression were relieved through the aid of the Reconstruction Finance Corporation; that thereafter that corporation became the principal preferred stockholder in some six thousand banks; that, because of policies of the Administration, the ordinary markets for our funds have been lost to us, and that the Government is today our chief customer.

You need not be told that private enterprise cannot compete with tax-supported governmental agencies; that the existence of such agencies restricts the field for private enterprise; that you cannot lend money in competition with Government. Likewise, you need not be told that business cannot function without a knowledge of costs and market. Today business is without such knowledge. It cannot anticipate what is going to happen, what field will be left to it, what its costs will be directly in the conduct of its business, and indirectly in the proportion of the expenses of government to be saddled upon it.

Self-Appointed Sages

So far back as history records, those in control of government credited themselves with a superior wisdom and endeavored to regulate the affairs of the people. The further back you go in history the greater this control, the greater "planned economy." The history of the English speaking peoples is the story of the fight to escape from this control and to render impossible its recurrence, to permit the individual the fullest possible freedom of action to develop himself. Experience taught our ancestors that you could not have this independence if you had too great a concentration of powers in government. That is what brought about the division of the powers of government between the executive, legislative, and judicial. That is what brought about the separation of church and state.

Experience also taught our ancestors that effective organization, organization which served the people and which did not dominate the people, had to come from the bottom up and not from the top down. That is what established our local governments, our state governments, and our Federal Government. The Federal Government did not set up the states, the counties, the cities, the towns; on the contrary, the people established these units, restricting and limiting the powers entrusted to them as they progressed, from the smaller to the largest, and leaving to the latter, or believing that they had left to the latter, only those matters of true national concern.

Now, whatever we may think of all this, we cannot avoid recognizing that it worked better than any planned economy ever worked. It brought about a standard of living

(CONTINUED ON PAGE 144)

In-Plant Bank Service Is on the Increase

RUDOLF MODLEY

The author is a management consultant, editor of the Report on Credit Unions, *and author of* In-Plant Thrift and Loan Services of Banks and Credit Unions.

ABOUT two years ago banks began to offer new types of deposit and loan service to employees in offices, plants, and stores. When these new "in-plant" or "at-work" plans were first described here about a year ago,[1] less than 10 banks were known to be offering such services and less than a thousand employers were participating in such plans. Today, the number of banks offering such plans has grown beyond a hundred. Several thousand employers have agreed to make the plans available to their employees.

Several Types of Plans Offered and Under Study

The most widely accepted plan is patterned after that offered by the Bank of America.

This plan offers personal loans (unsecured up to $2,500 with 6- to 24-month repayment), home improvement loans (up to $3,500 with up to 5-year repayment), automobile loans (with up to 36-month repayment), study plan loans (up to $10,000 with up to 48-month repayment), and other types of loans.

Note application forms and employment verifications are obtained from the employer. The employee fills out the application and drops it in the mail to the bank.

Loans are confidential. One-day service is usually possible. Most types of loans include credit life insurance without extra charge.

The rates of interest charged are slightly more than 1% per month on the unpaid balance. Loans for debt consolidation are invited.

Repayment methods are optional, with an automatic charge to the employee's checking account suggested as being most convenient. In addition to checking accounts, savings accounts are also invited. Signature cards and stamped envelopes are obtainable at the place of employment.

Employers using the Bank of America plan have found that it reduces time losses previously occurring on paydays and time off requested for personal business. It has practically eliminated the requests for advances against future wages.

The bank reports substantial new business developed through the plan. Deposit accounts are averaging about one new account out of every five new borrowers. Numerous accounts were opened from nonborrowers, with or without payroll deductions.

Delinquencies compare favorably with other types of instalment credit, probably due partly to payroll deductions.

Several other banks have followed the approach used by the Bank of America, such as the Mellon Bank in Pittsburgh and others.

The "Money-Saver" Plan

Several Michigan banks are following a plan developed by Security First Bank and Trust Company of Grand Haven, Mich. This plan is available to other banks under a license arrangement.

Called the Money-Saver Plan, it is partly patterned after features which have contributed to the success of credit unions. It went into operation in July 1957. Today, it is in force in 16 employee groups served by the bank directly (13 manufacturing, one teacher group, two others); one licensee bank signed up 28 employee groups in the first six months of operation; another one is just starting operations in three Michigan cities; two more are just about to start.

The plan is based entirely on payroll deduction and provides both savings and loan features. The employer does not know if the deduction is for savings or loans, and the confidentiality of the employee's relation with the bank is thus increased.

The maximum loan limit is $3,000. The unsecured maximum is $500, with a maximum repayment time of three years. Rates are below the 1% per month on the unpaid balance charged by credit unions and lower than regular bank rates. The lower charges are possible because of savings in collection cost through payroll deduction.

The most important difference between this plan and the Bank of America-type plan is an in-plant committee which promotes savings and screens loan applications. The committee brings the employees into the plan, gives the bank a broader contact in each employee group, and, in turn, gets people interested in the bank.

In unionized plants the committee usually includes a union and a management representative.

About 25% of all employees covered by the plans have opened savings accounts, which now average about $200 each. There has been about one loan for every employee in the plans, averaging about $700. Losses have amounted to less than 0.1% of loans granted.

Other Types of Plans

Several more limited plans are also in operation.

Of more interest, however, are broader plans being discussed by some banks.

These plans may overcome one of the most severe handicaps faced by banks and credit unions: opposition to payroll deduction. Some employers do not like the extra bookkeeping involved in payroll deduction. It means additional record space and additional time. More importantly, however, it makes the "take-home" pay look smaller even though the deduction may be to the employee's own benefit.

Several banks are considering plans which would overcome this handicap and, at the same time, would open avenues of attracting much more business to them. These banks would offer to handle the entire payroll for the employer. The

[1] Rudolf Modley, "Bank Service Goes to Meet the Pay Envelope," BANKING, November 1958, page 40.

IN the presence of restrictive bank charter and branching policy, let us see what has happened in the credit union field. Between 1949 and 1958, an estimated 13,200 credit unions were chartered, including 6,800 Federal and 6,400 state credit unions. That is an average of over 1,300 a year. If we look at the year 1958 alone, we find that about 1,800 new credit union charters were granted, while there were only 92 new bank charters and 592 new bank branches.

Since credit unions operate in the savings and personal credit fields, is it not appropriate, therefore, for both bankers and supervisors to observe facts such as I have just related and pose questions regarding the impact of such developments on the banking system? In my view, it is not only appropriate, it is imperative! Moreover, one should not be misled by fear that such an attitude will be interpreted as an attempt to destroy competition. If the public interest calls for a bank charter policy that places some limits on the freedom of entry into the banking business, is the public interest—in the long run—also not affected by distinctly opposite charter policy with respect to other institutions operating in fields served by banks? Perhaps it is not so affected, but I submit that the bank supervisory official cannot ignore his responsibility for finding out whether or not it is.

STUDY of the credit union movement is intriguing because the concept under which the credit union is chartered is so fundamentally different from that of banks. The credit union is not organized to serve the public, but rather to serve a group of people under a common bond. Capital is not required at the time of organization for the protection of shareholders. Trained management is not a condition for a charter. Contrast those features with the bank chartering requirements I discussed before. When a chartering policy that in some states is clearly promotional permits the creation of a system of 19,000 credit unions in a few years and can be expected to facilitate the addition of thousands more in years to come, bank supervisors appropriately can ask whether their own charter policy bears any relationship to it.—JOHN W. REMINGTON, *president, American Bankers Association, addressing the 1959 convention of the National Association of Supervisors of State Banks.*

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employee's pay would be credited to his account in the bank. Such an arrangement does away entirely with the complexities of payroll deduction handling by the employer. It eliminates the time losses incurred by employees; it gives the employee an opportunity to authorize the bank to make payments to savings accounts, mortgage owners, etc. It would also bring greatly increased deposits to the banks.

In-Plant Banking and Branch Banking [2]

Some attention was attracted last year by a statement of a former superintendent of banking in Ohio that "in-plant" plans were in violation of the banking laws for the reason that any bank using such a plan was indirectly transacting business in a place other than that designated in its articles of incorporation or association or in a legally constituted branch.

This position has been held unfounded by counsel for the Colorado Bankers Association. In this view a deposit is not complete until it is received by the bank or its agent and a debtor-creditor relation is established.

This view also holds that a loan by a bank is the furnishing or delivery of money on the condition or agreement that it shall be repaid. Repayments are not completed until delivered into the control and possession of the bank or its agents.

The transactions described take place on the bank's premises, not at the employer's facility.

Only if the employer were to act as the bank's agent in performing any of these functions might an "in-plant" plan involve branch banking. In no plan does the employer assume such an agent's function.

In-Plant Service by Banks And by Credit Unions

"In-plant" plans by banks are offering a service which has, until recently, been furnished almost exclusively by credit unions. It is, therefore, worthwhile to compare the similarities and the differences in service which the two institutions offer to the two main parties involved—the employer and the employee.

Both banks and credit unions provide loans to employees quickly without involving company funds. Banks have an advantage in generally having available ample funds for loan purposes. Newer credit unions, in contrast, are often short of sufficient funds to meet all loan demands. Banks can also provide loans for real estate and other purposes which many credit unions are not able to furnish. On the other hand, credit unions have often shown a greater willingness to grant loans to employees who, under the more conservative lending policies of bankers, might have been refused a loan by a bank.

Both banks and credit unions provide effective protection from illegal high-rate lenders.

Both institutions encourage thrift and both eliminate requests for emergency loans from employers.

There Are Also Some Important Differences

On the other hand, there are important differences:

(a) Banks provide professional and experienced personnel. Many credit unions are only beginning to get professional management; most of them are run by untrained personnel.

(b) In case of losses in credit unions, management has often felt it necessary to make up for some or all of the shortages. The employees' savings have occasionally been tied up for long periods. It is unlikely that any employer will become involved in any losses occurring in a bank. Employees' savings in banks are insured and it is also unlikely that depositors' funds will be tied up long.

(c) Banks can offer their customers checking account services, real estate loans, and other banking services which credit unions cannot

(CONTINUED ON PAGE 118)

[2] This section is based on a letter of April 24, 1959, of a former superintendent of banks, State of Ohio, addressed to banks, and on an article by J. G. Holland and Claude Maer, entitled "Employee Deposit and Loan Service Plans and the Branch Banking Statutes" in *The Mountain State Banker*, December 1958.

How Leasing Colors the Credit Picture

This article is based on research conducted by Richard F. Vancil *and* Robert N. Anthony, *respectively instructor and professor of business administration, Harvard Business School. The introduction was written for* Banking *by* Richard F. Vancil *and the survey results were excerpted from an article by both men that appeared recently in the* Harvard Business Review.

Should a bank be concerned about the lease obligations of a prospective borrower? If so, how is a company's credit standing affected when it incurs a significant obligation under long-term, noncancelable leases?

From our surveys of nearly 150 of the largest commercial banks in this country, the answer to the first question is an overwhelming and obvious, "Yes, if the amount of the obligation is significant." The essential question is not *whether* lease obligations should be considered in making credit analyses, but *how* the analysis should be made.

Three Methods Used

We found three distinct methods being used:

(1) Lease obligations are treated as a separate factor to be considered in the final credit appraisal. Often they are evaluated by relating the amount of the annual obligation to the sales or profits of the company and of other companies in the same industry.

(2) Lease obligations are considered to be just another type of fixed charge and are combined with debt service requirements to determine the company's safety margin in meeting its fixed commitments.

(3) The series of lease payments is considered equivalent to a long-term debt obligation. The payments are capitalized in some manner and the balance sheet is adjusted to reflect this additional liability (and asset) before the financial position of the company is evaluated.

The job of credit analysis is not mechanical. Although ratios are frequently used, they are meaningless until evaluated in terms of the company's management, market position, production facilities, and a whole range of intangible factors influencing the company's future.

Within this broad framework it may be seen that the first method for analyzing lease obligations has the effect of introducing another intangible to be considered in the final evaluation. The other two methods combine the lease obligations with other quantitative data before the evaluation process begins.

Because of the many similarities between lease obligations and other types of financial commitments, the latter methods seem to be an effective way of sharpening the appraisal process. When appropriate, and when correctly applied, the use of these methods eliminates further specific consideration of lease obligations, thus reducing the number of intangibles to be evaluated.

The appropriateness of these techniques, the question of which of the many varieties of lease obligations should be handled this way, is still one of the great unsolved problems in this field. But, just because no pat answers are available, does not mean that analysts should not try to resolve these questions for their own use.

Response to Survey

Analysts	*Number queried*	*Number responding*
Insurance companies	94	58
Commercial banks	148	110
Mutual funds	123	22
Investment bankers	114	44
Pension fund trustees	29	18
Rating companies	4	4
Total	512	256

The results of our surveys indicate that less than 25% of the banks included in our sample have actually established a routine procedure for combining lease obligations with other types of fixed charges. This technique is the easier of the two to apply, and yet it is still not as widely adopted by banks as it is by insurance companies (nearly 50%). Less than 5% of the banks reported that they capitalize lease obligations as equivalent debt, compared with 17% of the insurance companies.

Two Reasons Why

There appear to be two reasons for this difference. First, because banks deal in shorter-term credit than insurance companies, there is less need for a bank analyst to do such an intensive study of the borrower's capital structure. However, such an analysis becomes important for term loans of five to seven years. The second reason banks don't capitalize lease obligations in their analysis is that apparently they don't know how to do it.

Experience in the use of a new technique is not bestowed by the gods—or even by the American Institute of Certified Public Accountants. Credit analysts can obtain most of the information they require from prospective borrowers, and can teach themselves how to use the data effectively.

Survey Results

Assuming that it is useful to convert a lease obligation into debt, the figure can be established by discounting the future lease payments to their present value using an assumed interest rate.

The discounting method is most appropriate, in our opinion, because it eliminates the "interest factors" included in the lease payments, per-

mitting the determination of the "principal recovery factors" which may then be totaled to yield the amount of principal still to be paid by the lessee. This procedure assumes "net" leases, where the lease payments cover only interest and principal, not charges for taxes, maintenance, or insurance.

The amount thus determined as equivalent debt does not include the amounts that the lessee is obligated to pay in the future for interest, but neither are future interest payments on a conventional debt considered to be a balance sheet liability before the interest is "earned" by the lender as time passes.

Is It a New Source

We asked the analysts whether or not they believed that lease financing represented a new source of corporate capital, and if so, how they would rank it among more conventional sources in terms of decreasing certainty of return on investment and recovery of principal. Our survey produced some helpful information on this question, but there are some qualifications to be kept in mind in evaluating the data. When we asked a particular respondent to state his *opinion* on a certain subject, we could only infer that he was speaking for himself and not necessarily for the institution.

The responses show that 86% of the analysts in the survey group regard long-term leasing (leases with a noncancelable return of three or more years) as a type of capital. Practically all of these regard it as equivalent to debt. Of special interest is the very pronounced consistency of opinion among all groups of financial analysts—among commercial banks, insurance companies, investment banks, mutual funds, and pension fund trustees.

We also asked their opinions about short-term leases—for a term of less than three years such as those typically used for vehicles and office space. A considerable difference is apparent in the response to this question. For instance, 40% of all the analysts stated that they do not regard short-term leasing as a type of corporate capital; but only 29% of the commercial bank analysts share this opinion as compared to 48% of the respondents from insurance companies.

The final question that we asked was: "In your opinion, does the use of long-term, noncancelable leases make it possible for a company to obtain a greater amount of credit than would be possible if debt financing were used?"

Only 10% of the analysts checked "no." The other 90% of the respondents marked either "yes" or "sometimes, depending on the circumstances." Of special interest are the reasons they gave for their opinions.

More than a third of the analysts believed more credit would be available to a lessee because lease commitments do not appear on the balance sheet. A like number pointed out that financial institutions permit a borrower to obtain more credit if he uses some leasing obligations. This permission may be granted implicitly (as when the financial analyst does not consider lease obligations as being equivalent to debt), explicitly (by not restricting lease obligations in debt agreements), or simply by ignoring lease obligations when the amounts involved are small.

Turning to respondents who gave negative opinions about the availability of additional credit, the most common reason cited is that lease obligations are essentially the equivalent of debt and that financial analysts regard these obligations as debt and do not make any additional credit available. This reason was given by only 7% of the analysts (70% of the negative responses).

Conclusions

While our survey was not designed to measure statistically the degree to which lease financing is employed, there is no doubt that this new vehicle for corporate financing has become well established. The financial community is obviously aware of this activity and has taken steps to protect itself with restrictive covenants where necessary.

Is a long-term, noncancelable lease equivalent to debt? The answer seems to be: Most analysts *say* it is, but only a minority *act* that way. On the one hand we found that 81% of the respondents say they regard the security of long-term lease obligations as comparable to that of debt.

But, on the other hand, less than one-half the insurance companies and less than a fourth of the commercial banks actually do make use of formal, analytical techniques equating lease payments to debt, on a routine basis. Those who do use such techniques vary tremendously in handling identical situations.

Among the nearly 200 corporations that described their debt agreements to us, by far the most common restriction is one which establishes a fixed dollar limitation on annual lease payments. This type of restriction, while serving to control the amount of lease financing, suggests that the lender considers a certain amount of such financing permissible in addition to the stated limits on long-term debt.

Finally, 90% of the respondents state that the use of long-term, noncancelable leases makes it possible for a company to obtain a greater amount of credit than would be possible if debt financing were used. This may mean that they do not regard—or do not believe others regard—leasing as being exactly comparable with debt financing.

How Analysts View Lease Financing

The security of lease obligations compared with other types of capital

	Percent of respondents					
	LONG-TERM LEASES			SHORT-TERM LEASES		
Lease obligations compared with:	*Com'l banks*	*Insurance companies*	*All analysts*	*Com'l banks*	*Insurance companies*	*All analysts*
Short-term bank loans	..	..	..	10%	26%	16%
Between bank loans and long-term secured debt	10%	4%	8%	26	12	19
Long-term secured debt	35	34	35	15	2	8
Between long-term debt and unsecured debentures	15	16	16	5	2	4
Unsecured debentures	15	10	13	11	..	6
Between debentures and subordinated debt	5	7	5	1	5	2
Subordinated debt	2	2	4	1	2	2
Other types of capital	3	13	5	2	3	3
Not a type of capital	15	14	14	29	48	40

How Bankers Train for Political Action

Politics may not be your business but its a popular avocation for businessmen. Here's what bankers are doing about it.

THOMAS W. MILES

MYRON WEIL is typical of many bankers today who want to be heard at least in the writing of the rules by which they do business. Myron Weil is going in for politics.

His political activity is personal, of course. It has nothing to do with his position as vice-president of the National Bank of Commerce in Lincoln, Nebr. Even so, the two are related. The politics is regarded by Myron as a means to the creation of a better local, state, and national climate for business and banking. It is an avocation separate and apart but related to his vocation of banking.

How He Started

Myron was one of five bankers in a group of 30 or more Nebraska businessmen who took time out last June to prepare themselves for their latter-day careers in politics. They went back to school for a short cram course in the theory and practice of politics.

They put in two 12-hour days at a nonpartisan Practical Politics Workshop set up by the Effective Citizens Organization (ECO) under the auspices of the University of Nebraska on the campus in Lincoln. This correspondent, who writes the Washington column for BANKING every month and conducts his own public relations counseling service, was privileged to lead the session on "Business - Political Communications." The workshop conferees carried on informal discussions as though in a graduate seminar.

Myron and his associates heard a dozen specialists discuss politics from four angles: (1) theoretical background; (2) structure; (3) techniques of political communication; and (4) what individuals and corporations can do. The specialists included University of Nebraska faculty members, national, state, and county political leaders from both the Democratic and Republican parties, and ECO staff members.

Since his ECO workshop, which was for him a trainer course, Myron has helped organize three other political indoctrination courses in Lincoln. By the time this article is published, about 60 more Lincoln businessmen will be more politically alert and skilled as the result of these courses.

So far Myron's politicking has been in the preliminary phase of training recruits. Where he will go from here will depend upon the political situation.

No Adverse Effects

But he has been convinced of one point which can be expressed two ways: negatively, his personal political activity will not adversely affect the National Bank of Commerce (resources $62,442,992 as of June 30); and positively, his interest in presenting a business point of view in public matters will make friends for the bank for which he works.

Myron does not believe that the National Bank of Commerce should become involved in partisan politics. Politics is no place for the bank as such. But he sees no reason why officers and employees of the bank should not take part individually in the political organization of society which today affects so much their economic well-being. He regards such activity as a duty.

The Movement Spreads

His opinion is shared by a growing number of bankers throughout the country. This correspondent has met bankers at ECO workshops at the University of Missouri, Amherst College, Beloit College, William and Mary, the University of Michigan, and Washburn University, to name only a half-dozen. Of 162 business firms listed by the Chamber of Commerce of the United States as having action courses in practical politics either planned, in process, or completed, three were banks. These were the Indiana National Bank in Indianapolis, the First National Bank in St. Louis, and the American National Bank, Beaumont, Tex.

More recently the Chase Manhattan Bank in New York announced the formation of a public affairs department in "a nonpartisan effort to help all of us become more effective citizens . . . and thereby make a real contribution to good government." Set up under the direction of Assistant Vice-president James J. Maher, the program is twofold. It calls for a training program for those employees who want to become active in public affairs and for informational material on the impact of governmental actions, policies, and legislation on the economy.

ECO, which was a pioneer in the movement to extend political awareness and activity, has put about

1,500 top and middle management men—and a few women—through 50 or more workshops throughout the country. Many of these graduates, including Myron, have applied their special training to the training of others, using materials prepared by the U. S. Chamber of Commerce and the National Association of Manufacturers. The effect is cumulative and incalculable.

Packaged Courses . . .

There are a number of training courses all packaged for ready use by companies and associations. The Chamber's business relations department has worked up materials for a series of nine 2-hour workshops for 12 to 20 persons conducted by a discussion leader. These include a *Discussion Leader's Manual* ($12) and a set of eight pamphlets ($6 per set). The reading of the pamphlets is homework for the workshop where the case method is pursued. Participants develop their own solutions to case problems in practical politics.

The NAM program relies heavily on audio-visual aids. Its complete kit, which comes packaged in a brief case, costs $300. It includes color slides, a 16 mm. motion picture film, and recordings as well as a seminar leader's guide and a 96-page manual. The program is designed for about 20 persons in a series of six seminars. Those taking the course are encouraged to supplement their seminar work with actual experience in making political contacts and gathering political information.

. . . Manuals and Plans . . .

One of the best political action manuals is an illustrated book, *How to Win,* which was published by the AFL-CIO Committee on Political Education. It is available on request for $3 at the Washington headquarters of the AFL-CIO.

The Syracuse Plan of the Syracuse (N. Y.) Manufacturers Association has been extensively publicized. It is geared for local and state action on objectives revealed in business climate appraisals. The training materials developed have also been packaged. Of the 600 business people who participated in 1958, the association reported the names of 225 were offered to the leaders of both major political parties as workers.

. . . and Company Programs

The Sound Government Program of Johnson & Johnson, New Brunswick, N. J., has resulted in about 200 managers taking appointive or elective offices in both parties. While most of these are at the local level, three are state legislators, and another 100 hold posts in the political parties. The J. & J. program, perhaps the earliest, was started in 1951. Until last year, the method used was panel discussion of local issues on company time. At the present time J. & J. has adapted these sessions to the use of the U. S. Chamber course.

Another trail-blazer in this field is General Electric which devoted two years to study and plans before announcing publicly its program of encouraging employees to participate in the activities of the political party of the individual employee's own choice. The GE technique is essentially to make business climate appraisals, set goals, and then map a program to achieve them. The company's various components decide for themselves what course of action to take. As a result, many different training courses and approaches are being used in the GE system. The company has also set up a Government relations service which carries out research and issues bulletins on legislation in prospect and related information for guidance of company managers.

These are just a few efforts in what ECO calls "a push to probe the political system that surrounds the governmental structure in the home precinct, in the county, in the state, and at the national level, one that is pushing up sprouts by the hour."

What of this movement into politics by businessmen and business organizations? For one thing it will

(CONTINUED ON PAGE 130)

Those smiles prove it's not all work as Commissioner James Murray of Jersey City addresses a political workshop session at William & Mary College

BANKING'S Spotlight on—

CHARLS E. WALKER

This month's spotlight is focused on the Assistant to the Secretary of the Treasury as BANKING'S *Washington correspondent, Herbert Bratter, reviews Mr. Walker's career in banking and government.*

IN HIS capacity as Assistant to the Secretary of the Treasury, Charls E. Walker occupies a spacious office in the historic Treasury Building overlooking the quiet gardens of the White House. In this retreat the former university economics professor ponders problems of debt financing, interest rates, and other weighty matters on which the Secretary has to formulate the official position.

Mistaken Identity

Outside Washington Mr. Walker sometimes is misaddressed as "Assistant Secretary of the Treasury," a title he is quick to disclaim. Someone once asked him what the difference was. "About $5,000 a year," the smiling economist replied. An Assistant Secretary is, of course, Presidentially appointed and has policy responsibilities. Mr. Walker was appointed by Secretary Anderson last spring to replace Henry C. Wallich, who became a member of the Council of Economic Advisers. Mr. Walker's previous job was as vice-president and economic adviser at the Federal Reserve Bank of Dallas. To that post he intends to return after 1960, regardless of the outcome of the next election.

Although Mr. Anderson before 1953 was a director and deputy chairman of the Dallas Fed, Mr. Walker had not met him until March 1959. The Secretary, looking about for an economist, heard of Mr. Walker through President Irons of the Dallas bank, who is an economist, too.

Of his present work Mr. Walker remarked: "This may sound trite, but I regard this tour of duty as a great privilege and opportunity. The Secretary is wonderful for a former economics professor to work with.

Debt management consumes a good portion of Mr. Walker's time in the Treasury. In this matter he works as part of a team headed by Under Secretary Julian B. Baird. The team sits informally and may meet as many as 15 or 20 times on a particular financing operation, depending on its complexity. Other members of the team include Assistant Secretary Robbins, Fiscal Assistant Secretary Heffelfinger, Assistant to the Secretary Mayo and R. Duane Saunders, chief of the debt analysis staff.

A Full Schedule

Mr. Walker sits in on all meetings with the A.B.A. Government Borrowing Committee and similar advisory committees of other associations called in by the Treasury. He assists the Secretary in preparing for Congressional hearings on general economic and debt management questions, such as the 1959 hearings on the debt ceiling, the bond interest ceiling, and the savings bond amendments. Consulted daily by the Secretary, Mr. Walker prepares memoranda and other materials, assists on public statements, talks with many visitors to explain Treasury policies and problems, occasionally makes a public address himself, and accompanies the Secretary to Congressional hearings. Taxation is not within Mr. Walker's assigned duties.

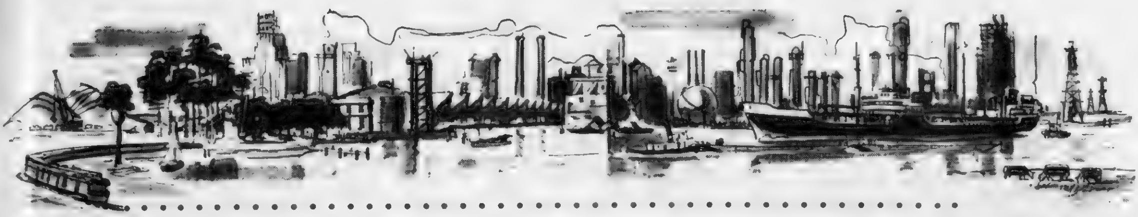
The genial 6-foot Texan is well known in A.B.A. circles. During 1955-56, when Fred Florence was A.B.A.'s prexy, Mr. Walker was the latter's special assistant at the Republic National Bank of Dallas. From there, as mentioned, he moved to the Dallas Fed. Previously, in 1954-55, he had served the latter bank as financial economist. Before that he was associate economist at the Philadelphia Fed on a temporary basis, on leave from the University of Texas, where he was associate professor of finance. Earlier, as instructor in finance, Mr. Walker was at the University of Pennsylvania, where he received his Ph.D. in 1955. His dissertation was on Federal Reserve Policy and the Government Securities Market.

During the war young Charls—he attributes the name to his mother's preference for simplified spelling—was a U. S. Army Air Force 4-engine pilot instructor.

For the Building Scrapbook

TOP RIGHT — The new automobile drive-in Parking Lot Office of the First National Bank of Mason City, Iowa. The structure is marble and concrete, provides 54 parking spaces for customers, and is located two blocks west of the main banking building. RIGHT—Main office of the American National Bank and Trust Company, Mobile, Ala. The three-story building is constructed primarily of old brick with decorative additions of iron lace, flagstones, aluminum, polished granite, and porcelain. It has street level parking and drive-up tellers' windows

ABOVE, LEFT—Springfield Office of First Pennsylvania Banking and Trust Company located just opposite a shopping center. This new office includes drive-up banking, night depository, and parking facilities for 20 cars. Formerly a food market, the renovation was a project of the Cunneen Company, Philadelphia. ABOVE, RIGHT—Interior of Washington Depot Office, Litchfield (Conn.) Savings Society; 30-foot mural shows station at train time in 1870. BELOW, LEFT—Fairmount Office of The Hackensack (N. J.) Trust Company. Completely air-conditioned, it represents a blending of modern and Colonial architectural design. BELOW, RIGHT—Scottsdale Office of Valley National Bank, Phoenix, Ariz., showing handsome public park adjacent to building, which won for the bank one of 10 top awards in annual industrial Landscaping competition sponsored by American Association of Nurserymen



STATEMENT OF CONDITION

Condensed Statement of Condition as of December 31, 1959

RESOURCES:

Cash and Due from Banks		$262,156,175.25
U. S. Government Bonds	$182,237,441.81	
Municipal Bonds and Warrants	10,988,426.18	
Federal Reserve Bank Stock	1,650,000.00	
Other Investments	3,897,781.35	198,773,649.34
Loans and Discounts		241,828,706.49
Bank Premises	21,642,500.00	
Furniture and Fixtures	1.00	
Other Real Estate	25.00	21,642,526.00
U. S. Government Bills due January 15, 1960 allocated to Repurchase U. S. Bonds Sold under Repurchase Agreement		23,751,423.29
Interest on Securities and Other Income Earned—Not Collected		2,022,264.10
Customers' Liability on Letters of Credit		7,750,901.95
TOTAL RESOURCES		$757,925,646.42

LIABILITIES:

Capital Stock		$ 27,500,000.00
Surplus		27,500,000.00
Undivided Profits		5,845,634.41
TOTAL CAPITAL ACCOUNT		$ 60,845,634.41
Reserve Accounts		5,172,967.69
Liability on Letters of Credit		7,750,901.95
U. S. Government Bonds Sold to be Repurchased January 15, 1960		23,751,423.29
DEPOSITS:		
Individual	$475,274,917.59	
Banks	174,680,835.61	
Government	10,448,965.88	660,404,719.08
TOTAL LIABILITIES		$757,925,646.42

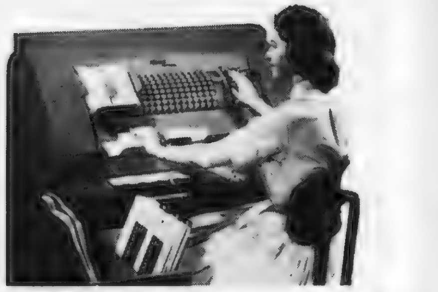
FIRST CITY NATIONAL BANK OF HOUSTON

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

WHERE WILL THE MONEY COME FROM?

. . . the solution is

Chart adapted from *The Decade of Incentive*, a study by Market Planning Corp., affiliate of McCann Erickson, Inc.



Banks of the Great Plains States (five-state area) using the *National* POST-TRONIC* . . . the electronic bookkeeping machine!

		POST-TRONIC Machines Installed	Conventional Machines Replaced
In NORTH DAKOTA			
DICKINSON	First National Bank	2	3
LISBON	Farmers State Bank	1	2
In SOUTH DAKOTA			
ABERDEEN	First National Bank of Aberdeen	3	6
MITCHELL	Mitchell National Bank	2	3
YANKTON	First Dakota National Bank	1	2
In NEBRASKA			
COLUMBUS	Columbus Bank	1	3
GRAND ISLAND	Overland National Bank	2	4
HOLDREGE	First National Bank	2	3
NORTH PLATTE	First National Bank	3	6
OGALLALA	The First National Bank in Ogallala	1	3
OMAHA	First National Bank of Omaha	8	16
	Packers National Bank in Omaha	3	6
	North Side Bank	5	11
	The Center Bank	3	2
	The South Omaha Bank	1	4
	First West Side Bank	3	2
ORD	First National Bank in Ord	1	1
TEKAMAH	The First National Bank	2	3
TILDEN	The Tilden Bank	1	2
WAHOO	First National Bank	1	3
WAYNE	The State National Bank of Wayne	1	3
WEST POINT	The Farmers & Merchants National Bank	1	2
In KANSAS			
ATCHISON	Exchange National Bank	2	5
CHANUTE	The Bank of Commerce	2	4
DODGE CITY	First National Bank in Dodge City	1	3
EL DORADO	El Dorado National Bank	1	3
ELLSWORTH	Citizens State Bank	1	3
EMPORIA	Citizens National Bank	3	5
EUREKA	Home National Bank	1	2
GARDEN CITY	Garden National Bank	1	3
GREAT BEND	Security State Bank	1	3
HARPER	First National Bank in Harper	1	2
HILL CITY	Farmers & Merchants Bank	1	2
HUTCHINSON	First National Bank	2	3
JUNCTION CITY	Central National Bank	2	4
KANSAS CITY	Security National Bank	3	5
LAWRENCE	Douglas County State Bank	1	3
	Lawrence National Bank	2	5
MC PHERSON	The McPherson & Citizens State Bank	2	3
OVERLAND PARK	Overland Park State Bank	3	7
PARSONS	State Bank of Parsons	1	2
PHILLIPSBURG	First National Bank	1	3
SABETHA	Farmers State Bank	1	2
SENECA	Citizens State Bank	1	1
ULYSSES	Grant County State Bank	1	2
WAMEGO	First National Bank	1	2
WICHITA	Wichita State Bank	3	6
In OKLAHOMA			
CLINTON	Oklahoma National Bank	1	2
LAWTON	The Security Bank & Trust Company	3	7
OKLAHOMA CITY	City National Bank & Trust Company	3	6
	The Bank of Mid-America Savings & Trust Company	1	2
TULSA	The Fourth National Bank of Tulsa	4	11
	North Side State Bank	2	New Bank

a salute to banks of The Great Plains States

53 banks in this five-state area have installed 101 POST-TRONIC* Machines replacing 201 conventional machines.

Confirmed reports to January 15 show 5,294 POST-TRONIC Machines now in use in 1,206 banks in all 50 states, the District of Columbia, Puerto Rico, and Canada.

IMPORTANT!

Every one of today's National POST-TRONIC Machines can be readily integrated with other National electronic developments—present and future. Your investment is therefore protected—by *practical* and *economical* step-by-step progression—to meet your bank automation requirements.

Call your National representative TODAY. Ask him to demonstrate the POST-TRONIC Machine, and show you how you can obtain many time- and money-saving advantages of ONE RUN electronically controlled posting IMMEDIATELY . . . using your choice of either ALPHA-DIGIT or NUMERIC Account Comparison.

THE NATIONAL CASH REGISTER COMPANY, Dayton 9, Ohio

1039 OFFICES IN 121 COUNTRIES • 76 YEARS OF HELPING BUSINESS SAVE MONEY

*TRADE MARK REG. U. S. PAT. OFF.

*National**

ACCOUNTING MACHINES
ADDING MACHINES • CASH REGISTERS
NCR PAPER (NO CARBON REQUIRED)

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Business Building Bulletin

FEBRUARY 1960

IDEAS AT WORK

The Ideas section of the Business Building Bulletin is by JOHN L. COOLEY.

Bank Helps Customers Get Theater Tickets

HERE'S a new service. Customers of The Meadow Brook National Bank, West Hempstead, N. Y., can buy tickets to shows in New York at regular box office prices.

The bank has provided each checking account holder with a fully paid membership in the Two On The Aisle Club. He receives, with his monthly statement, the club's bulletin offering two or more selections within a 30-day period.

Meadow Brook purchased a blanket membership in TOTAC for its 115,000 checking account customers and mailed individual cards in mid-January as "a thank you for the business relationship." Memberships will also be used as premiums to encourage new accounts.

"Everyone has reacted most enthusiastically," says A. B. Weller, chairman of the bank's board. "We feel that this is a natural extension of our theater ticket program. During the past five years we have acquired over 30,000 new customers through our summertime ticket program at the Jones Beach Marine Theater. As a result, many of our customers turn to us for tickets to other shows. Now we are in a position to offer them the opportunity of enjoying many theatrical productions all year long."

Space Age Show Is Attraction in Lobby

A SALUTE to the space age in the lobby of Palmer First National Bank and Trust Company of Sarasota, Fla., was arranged as a public service by the bank in cooperation with the U. S. Air Force Recruiting Service and Sarasota Air Reservists.

Plastic scale models, photographs, and reading material gave viewers a picture of Armed Forces research in rockets and missiles. Models were loaned by a local hobby shop and a special display of space craft was provided by Dennis Heslet, high school student.

Featured was a large scale model of the radio controlled Regulus II, a target missile, provided by Chance Vought Aircraft of Dallas. U. S. Air Force films were shown daily, and a Disney feature, "Men In Space," had two showings. A booklet, "Can You Speak the Space Language?" was distributed.

Newspaper coverage and public interest were "most rewarding," says the bank.

Free: Special Checks for 60 Days

A FREE trial of its special checking account plan brought considerable business to Northwest National Bank of Chicago.

New customers got full use of the service for 60 days, with 50 imprinted checks and imprinted checkbook, and a pen, all courtesy of the bank. Fred W. Heitmann, Jr., executive vice-president, tells us:

"This program was designed to be a low pressure campaign to secure new customers by offering to

Future space travelers anticipate a trip to the moon as they study models of space craft displayed at Palmer First National Bank & Trust Co. of Sarasota, Fla.

Bank Uses Old Railroad Station as Drive-in

SALE of old railroad stations to other users is hardly news these days, but when a bank buys one—well, that's a story.

The Union Banking and Trust Company of DuBois, Pa., purchased the Baltimore & Ohio's passenger station and is now using it as a drive-in branch. There had been no banking facility in that part of town since 1940.

The front of the building houses two drive in-walk up installations, reports Treasurer D. B. Kiel. Railway Express, a B & O tenant for 40 years, still lives in its old quarters at the rear, while the railroad's veterans association has rooms on the second floor.

let people try a bank service on a trial basis. We wished to avoid the use of gimmicks or anything that would be out of character with what our present customers might consider to be of good taste. Compared with other months, the number of Lo-Cost checking accounts showed an increase of over 400% during the two 6-day promotion periods.

"A 'plus' was the jump in new savings accounts during the same period in spite of the fact that our promotional material did not mention savings.

"I believe this promotion was successful because our agency prepared excellent material and the offer was genuinely sincere. We even offered to call at the homes of prospective customers to explain and open the trial checking account. However, although many people commented on our offer to visit them, we actually received only a few requests to do so. This was disappointing as we had assigned officers to various areas to be ready to make the calls the day the requests were received.

"But I think the offer added to the sincerity of the program as in essence we were saying 'Try our bank, our Lo-Cost checking service. We want your business so much we would be pleased to visit your home and explain it all to you.' "

Bank Starts Savings Accounts for Staffers

ON the theory that thrift begins at home, First Camden National Bank and Trust Company of Camden, N. J., opened a savings account for each of its 333 staff people with a deposit of $1.

"We feel," says President John S. Carter, "that if we are to sell the idea of thrift through savings accounts to the community, all of us, including the officers and directors — even our part-time employees — should be users of the services we are recommending. While we are starting everyone with a nominal deposit we expect everyone to make regular additions to his account.

"In these days of credit cards and credit buying, many have let thrift savings become secondary. Part of the bank's drive to build savings will be directed to parents, aunts, uncles, and grandparents who are being urged to start the family youngsters on the road to thrift. To do this the bank is suggesting 'The Gift That Teaches Thrift—a Savings Account.' "

"Rainy Day" Savers Get Free Umbrellas

BROADWAY Bank & Trust Company of Paterson, N. J., promoted its "Save for a Rainy Day" campaign by giving an umbrella with each new savings account.

Employee interest in the drive was stimulated through the use of a point system. Competition among teams and individuals was keen. Each staffer bringing in a new account had his name entered in a drawing for a 1-week expense-paid trip to Nassau for two. Teller Anthony Meyer was the winner.

Women Staffers' Club Builds Bank Business

THE First National Bank of Odessa, Tex., has a staff women's organization that's given a new twist to the officer call program idea.

"After hearing the male officers talk about the difficulties and hardships of a calling program," says the bank, "these girls took it upon themselves to form The First National Club of Bank Women. Although informal in organization, the group has as its purpose getting new business and the cementing of old relationships through calling, luncheon and dinner engagements, and social events designed especially for specific groups of women in the vicinity."

The girls, representing nearly every department of the bank, sponsor an interesting variety of functions. For example, a bridge-canasta party for new women school teachers and the wives of new men teachers was held shortly after the opening

The First National Club of Bank Women, Odessa, Tex.

of school. The bank received a number of new accounts as a direct result. Another project was a buffet dinner for the insurance women of Odessa, and at last report parties were being planned for secretaries, nurses, and other groups in the community.

Club members also take individual women to lunch. Between functions, the business-getting visiting program is carried on among customers and prospects.

The bank remarks that it's proud of the club and is "pleased to know that initiative is not a thing of the past."

Pittsburgh Bank Forms Sales Department

ON the theory that "selling should be called by its right name," Western Pennsylvania National Bank, Pittsburgh, now has a sales organization similar to the retail variety. It includes all staff people serving the public.

"We feel that almost every employee must be a salesman," says President M. A. Cancelliere. "Several years ago we began hiring sales-type personnel. We now have a sales oriented staff which places heavy emphasis on service and courtesy. We believe that selling our service is not the job of a few men in one department; it is the responsibility of many employees in many departments, throughout our 22 community offices."

Executive Vice-president Thomas M. Watt is sales manager. He's aided by Fred C. Masten, Jr., an assistant cashier. They devote full time to the new assignment, coordinating the efforts of all bank sales personnel, including estate planning people, office managers, business development men—and the president, too, when he's acting in a sales capacity.

Two Banks Promote Their States

THE South Carolina National Bank, Columbia, has a new Commercial and Industrial Development Division which is selling the state through an extensive program.

Information is available to industries and businesses about all communities with more than 1,000 population, sites and buildings, and the industrial development corporations in South Carolina. Personal services include itineraries, hotel reservations, office space, and stenographic assistance for prospects when they visit the state in search of new plant locations.

The division published "Suggested Community Industrial Survey Outline" as part of its program to assist communities lacking industrial development facilities. Other promotional projects include pamphlets, national advertising, a film, and speakers bureau.

Bishop National Bank of Hawaii has published a 58-page information book, "The New State of Hawaii." It contains facts, figures, charts, and photographs on the Islands' economic life, education, geography, government, and culture.

President Carl E. Hanson notes in the foreword: "As the 50th state, Hawaii is entering an unparalleled period of expansion particularly in the field of tourist development. The first effects are also apparent in a generally accelerated business pace throughout the state; in widespread new business, industrial, and residential construction; in mounting employment and personal income."

More Effective Advertising

SEVERAL ideas for increasing advertising effectiveness were suggested by F. J. Blake, vice-president, Central National Bank of Cleveland, at The First National Bank of Chicago's correspondent conference. He counseled:

Use seasonal advantages. Schedule your advertising to coincide with seasonal wants and needs. In January and February stress savings accounts: save systematically in the new year. Alternate with personal loans for Christmas bills. March is a good month to feature bank-by-mail because of the generally disagreeable weather. In April feature home repairs and modernization, for spring is fix-up-the-house time.

Plan special campaigns. Special impact and measurable results are obtainable by concentrating on one service. For example, a bank used all media during a 3-month period to promote its auto loans; the total exceeded that of its competitor which was only half as large.

Pick your bank's strong points: convenience, modern facilities, or an exclusive service, and emphasize them repeatedly. Thus you can pick your own battleground.

Develop some exclusive services. If possible, build a service that includes a twist or a name that's exclusively yours: special checking accounts, types of checks or envelopes, check credit, charge credit, etc. This is merchandising.

Give the advertising officer specialized training. Let him have the benefit of the information available from the A.B.A., state banking associations, and the FPRA. Encourage him to be active in state and local groups and to rub elbows with ad people in other banks.

Consultant services. Many banks that can't afford an ad agency use a local advertising man to help prepare and execute their programs. The correspondent bank can help, too.

Identify yourself. A symbol, slogan, or trademark will facilitate the identification of your bank in all forms of advertising. It creates an image.

Sure-fire ideas sometimes backfire. Remember, said Mr. Blake, that the success of others does not guarantee your success. Also, a solid advertising program needs to be based on something more than the success of another bank where conditions may be much different.

Statement enclosures. Use them with discretion. Just because advertising can be directed to customers without additional postage cost is no justification to use statement enclosures regularly. They should be timely messages. Often greater effectiveness is added by integrating the enclosure with other bank advertising.

Bank Takes Teachers on Trip to Fed

THE Commercial National Bank of Peoria, Ill., added a new activity to its extensive school-relations program. It sponsored a 1-day trip for high school teachers to the Federal Reserve Bank of Chicago.

Instructors in business subjects from seven public and parochial schools were in the autos that journeyed 160 miles for the on-the-spot view of the central banking system. The program, arranged by Charles G. Wright, assistant vice-president of the Reserve bank, included a tour, lunch, and a 2-hour discussion and question-answer period on the system. The return trip included dinner as guests of the Commercial.

The bank has also distributed red-ink ballpoint pens to 500 Peoria teachers. A note went with each

gift: "Here is a special pen (with red ink) for your use in grading papers. We trust you'll find it helpful.—P. S. You may also use the pen for writing checks . . . Commercial Bank checks, of course."

Many teachers wrote to say thank you.

New Jersey Area Banks Stress "Bankmanship"

THE Bergen County Bankers Association, representing 35 banks in that New Jersey area, is planning a 1960 advertising campaign keyed to "Bankmanship."

This original word is defined as "the application of skill, knowledge, and foresight in commercial banking service . . . expertness in financial affairs . . . devotion towards growth and expansion through superior bank organization and function." Ads explaining "Bankmanship" are being copyrighted for exclusive use of association members.

Bay State Bank Has Retailers' Seminar

RETAILERS in Lawrence, Mass., were guests of the Arlington Trust Company at the bank's third annual business seminar, held at a country club.

Based on the case study method, the businessmen discussed numerous situations in such areas as recruitment and selection of retail personnel in competition with industry; the need for sales training and enlightened labor relations; preparation of a cash budget.

A film demonstrating sales techniques was shown.

The leader of the seminar was Dr. Donald K. Beckley, executive director of the Boston Center for Adult Education, and a former professor of retailing.

Article Promotes Use of Bank Services

AMERICAN Express, New York, released an illustrated article on how the public can make more and better use of bank services. It's for publication in newspapers, magazines, trade papers, and house organs.

Titled "What You Should Know About Banking," the story says, "Banks are now like money supermarkets," and calls attention to newer services, including check-credit and charge account credit.

Bank-Sponsored Business Forecast Forums Help Executives in Two Cities

WE'VE heard from two banks which, late in 1959, sponsored 1960 forecast forums for local businessmen. Each reports that its project was warmly welcomed.

The Nashua (N.H.) Trust Company's meeting had an audience of more than 300, while the Iowa-Des Moines National Bank's forum in Des Moines attracted approximately 400. There was considerable difference between the two programs, and we'll pass along some details.

The Nashua bank's session was the outgrowth of a 4-meeting financial seminar for industrial executives in 1958 which had required audience preparation and participation, a condition that limited the number of people invited. As a result, says Robert J. Cross, assistant vice-president, the bank was 'literally besieged by other businessmen who wanted to be included in future programs," and the single session forecast forum was planned for 1959, with an economist, Dr. Willian H. Miernyk, director of the Bureau of Business and Economic Research, Northeastern University, as speaker. He talked about the 1960 outlook and then answered questions. A digest of the forecast was given to each person after the forum. It was also mailed to those originally invited but unable to attend.

William J. Barrett, president of the trust company, sent personal letters of invitation to several hundred business leaders. Return postcards brought tickets from the bank. Many favorable comments were received, reports Mr. Cross.

THE Iowa-Des Moines National Bank's forecast program was titled "Iowa Business Trends for 1960." It took place in a local hotel and after the meeting lunch was served.

Eight well-known business leaders discussed, in short summaries, the prospect for their industries in the coming year. A booklet containing all the talks was published later.

C. W. Aurand, president of the bank, says: "This is our first attempt at sponsoring a business forecast meeting. It is our opinion that these forecasts are very interesting and beneficial."

Businessmen listen at forecast forum sponsored by Nashua (N. H.) Trust Co.

Briefer Mention

SIDEWALK SUPERS. American Trust Company of San Francisco has issued Progress Report No. 1 on its new headquarters building. The eye-catching folder addressed to "Neighbors and Sidewalk Superintendents" explains pile-driving and underpinning. An architect's drawing of the completed building is included.

MOBILITY. Southern California's first mobile bank is being operated by California Bank at the site of the new Segundo office. It will be used at other locations where a building is being constructed or while major alterations are being made. Facilities include a 4-station teller line and an officers' platform.

AREA PROMOTION. Citizens National Bank of Los Angeles has issued an industrial booklet, "Los Angeles, Focal Point of the West." It points up the city's growth as a center of commerce, industry, and business opportunity.

SALES FILM. How to call on prospective customers is the subject of a new training film released by

TRAILER BANK

Valley National Bank of Arizona says this is the "largest and most completely equipped trailer bank in the U. S." Its first assignment was at a Phoenix shopping center while a permanent building was being erected. Measuring 55 x 10 x 10 feet, it offers every service except safe deposit boxes. Interior has two tellers windows, lobby, bookkeeping area, coffee bar, new accounts department, vault and rest room

the Financial Public Relations Association. Entitled "Creative Persuasion," the full color sound slide film shows how preparation and imagination must combine to make a successful sales call.

LIVE. First American National Bank of Nashville, Tenn., opened its 17th "convenient location" with a live 7:45 A.M. broadcast of a popular variety show from the lobby. Visitors began to arrive a few minutes after the show started, and traffic continued throughout the day. Souvenirs were distributed.

LUCKY SAVERS. As an open house feature The Lee County Bank, Fort Myers, Fla., had four daily drawings for $50 savings accounts and a grand award of a $500 account. The bank was celebrating conversion of its ground floor into one big room.

Delaware Bankers Association Sponsors Future Bankers, Business Leaders Clubs

FROM the Delaware Bankers Association comes word of a new youth program that seems to have plenty of potential.

It's the formation of Future Bankers and Business Leaders clubs in the state's high schools. Membership is open to 11th and 12th graders who are taking business subjects. Each club, when approved by the school administrator, becomes part of the regular activity schedule and is allowed to meet on school time.

The association will supply the clubs with charters, constitutions, membership cards, and libraries of reading material published by the American Bankers Association and the Federal Reserve banks. DBA members' cooperation is offered for tours or trips and in obtaining films and speakers for programs.

DBA president William R. Brown presents charter to Laurel Future Bankers and Business Leaders Club president Swazanna Perdue. Others are Emily H. Womach, head of BBA's PR committee, and E. Blanche Ralph, teacher and club sponsor

Emily H. Womach of The Essex Trust Company, Laurel, chairman of the public relations committee, explains that the association is encouraging the project because it enables the young folks to study and identify the qualities, traits, and aptitudes basic to success in business and banking, gives them a better understanding of banking history, and provides an opportunity to learn about banking careers.

Each club will have a teacher sponsor. There's a system of credits to be earned for reading and participation in club activities.

The first club was organized at a Laurel school, with 33 members. William R. Brown, PBA president and cashier, The First National Bank of Wyoming, presented the charter. Mrs. Womach installed the officers and introduced representatives of local banks. Other clubs are in prospect.

Bank's Art Show Aids Merchants' Promotion

THE Salem (Ill.) National Bank cooperated with the local merchants' annual "sidewalk days" promotion by presenting a sidewalk art gallery.

"We invited all local amateur artists to bring some of their work," says Gerald Sinclair, assistant cashier. "A woman artist who does chalk drawings demonstrated her talent.

"The response was very gratifying, and we plan to make an annual event of it."

The sidewalk art gallery

New Advertising Aids to Help You Build SAVINGS

Right now is a good time for your bank to go "all out" in promoting savings. As a new year gets under way, people traditionally take stock of their savings positions and resolve to do something in the months ahead about building up their emergency funds and saving for specific objectives. Here are new A.B.A. savings-promotional aids to help your bank win its fair share of this motivated market.

Savings series #18-SA consists of 6 ads (one of which is shown above), on the theme that informed people *bank* their savings. Photographically illustrated, ads are projected in a light vein, each with different copy. Ads measure 2 columns x 8"; are supplied in complete mat form.

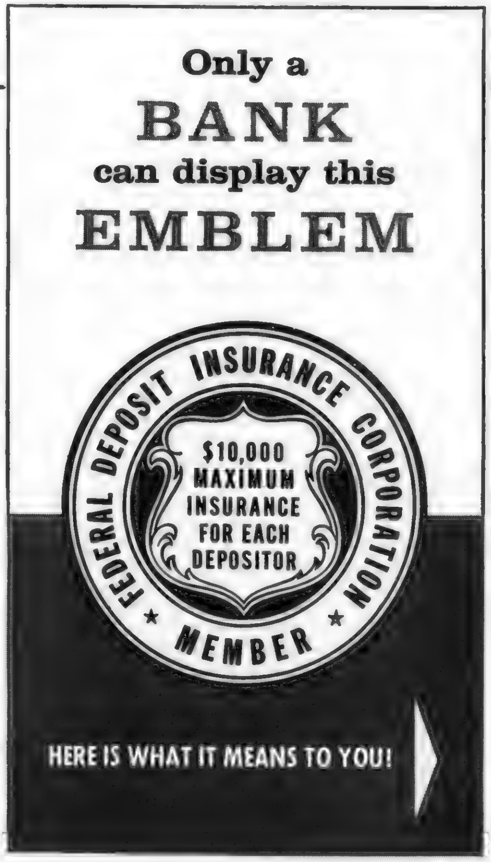
Savings series #19-SA (see right) features drawings, by an outstanding artist, of individuals most people like to emulate. Headlines and copy are the same as in series #18-SA, described above. Many banks have already ordered both series. Ads measure 3 columns x 10"; are supplied in complete mat form.

Please order ad series by key number.

ADS and AIDS that sell SERVICES

DEPOSITS—Prepared by A.B.A. Advertising Dept.

The material shown on these pages was produced in cooperation with the Savings Promotion and Development Committee of the A.B.A. Savings and Mortgage Division. For descriptive broadsides on ad series and/or for sample folders—together with price information and order forms—simply write to the Advertising Department, American Bankers Association, 12 East 36 Street, New York 16, New York.



The text of the savings folder shown above enlarges on the title, and concludes with other reasons why it pays to deposit cash savings in the bank. Attractively printed in blue & black.

The folder shown at left features a thrift message that ties in with the 50th anniversary of the Boy Scouts of America, which will be observed across the country in 1960 (February is the anniversary month) . . . offers an opportunity to build community goodwill while putting the accent on thrift. Colors are gold & blue.

Please order folders by title.

ASK for the Business

WHEN W. W. Cook, president of the Beatrice (Nebr.) National Bank, was asked to give a Financial Public Relations Association audience some ideas for selling additional services to present customers, he prepared by shaking the bushes—and hard. Writing to 125 FPRA members, he got a return mail well packed with suggestions. Here are a few.

STATEMENT STUFFERS. One bank promoted safe deposit boxes by enclosing a folder, "Your Personal Papers—to Keep or Not to Keep." It listed personal papers, with suggestions on how long each should be retained, and the sizes and prices of boxes. The card was mailed with statements, and local attorneys received supplies for their clients. The idea worked well.

Automatic savings were boosted with another bank's card. The top part showed the sure way to save: so much per month for so many months, plus interest, would total so many dollars. The bottom part was a form giving the bank authority to charge the checking customer a definite amount each month and deposit it in an automatic savings account.

"CUSTOMERS' HOURS." That's the name one bank gave to the service at the drive-in windows. One opened at 7:30 A.M., and closed at 10 when the bank opens, reopened at 3 P.M., when the bank closes, and served until 5:30. This window took care of as many customers in a day as the busiest inside the building.

MEET THE STAFF. Newspaper campaigns featuring bank officers and employees are becoming popular, Mr. Cook reported. The first requirement is good photography, the second, good copy. Suggestions for ads: Pictures of the president advising a customer about a new business venture; vice-president talking with a child about his first savings account; agricultural consultant discussing a livestock program with a farmer; bookkeeper posting a customer's account. Copy should give the names of the individuals and an explanation of what they're doing.

TRADING STAMPS. They're popular, especially with the ladies. Some banks are giving 500 to 750 stamps to a customer who brings in a new account.

Sales Opportunities

Mr. Cook also notes that the following situations give an opportunity to sell additional services:

When a U. S. Savings Bond is sold, suggest a safe deposit box.

When a person buys a bank money order, try to sell a checking account.

If a vacation trip is mentioned, try to sell travelers' checks.

When savings money is withdrawn, offer a bank money order or cashier's check.

When mortgage papers are completed sell a safe deposit box.

Suggest an account, to a check casher.

If a car transaction is mentioned, sell an instalment loan.

If you notice a new business in the area, arrange for a call by an officer.

Try to get the family business of new employees in the bank.

When travelers' checks are purchased, promote a vacation savings club.

New baby in the family: sell a savings account to Grandma.

When a large check is offered for collection, ask for a deposit.

If you hear a complaint on parking, sell banking by mail.

When loan instalments or rentals of deposit boxes are paid with cash or money order, sell a checking account.

Ask regular check cashers to open an account.

When you are making a loan, ask for the borrower's other business.

When you count the piggy bank money, sell a savings account.

Think about your neighbors: do they bank with you?

Why Not Try Asking?

Mr. Cook suggests that the whole problem of selling more services to present customers boils down to just four words:

"Ask for the business!"

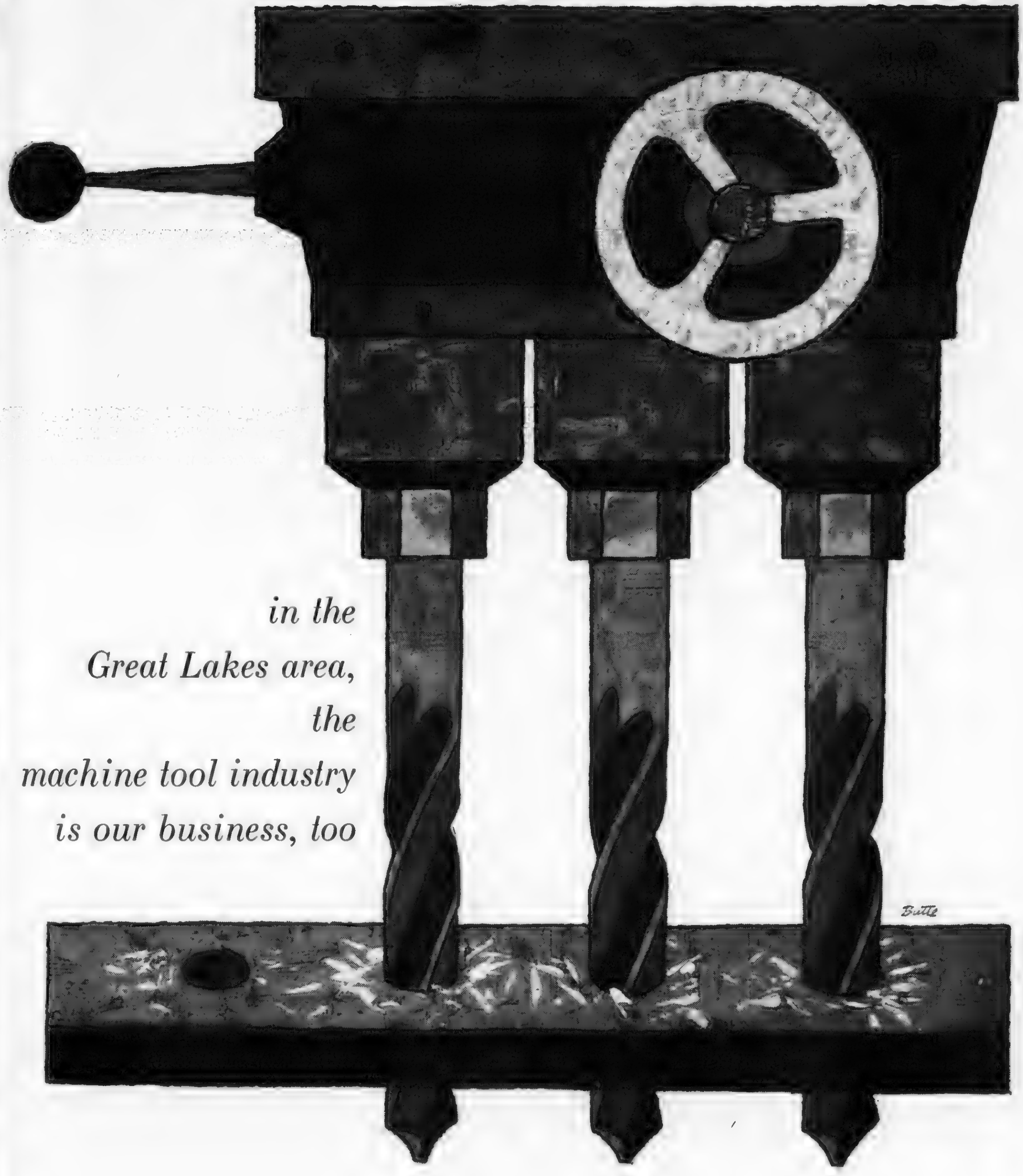
Somebody Sold Them

How does progress come for a bank? Certainly it isn't shipped in by parcel post from New York or Chicago, ready to use and guaranteed to please. It comes when we want it enough to plan for it and work for it, and it comes a little bit at a time.

It comes when John Jones is a better farmer with a new tractor or Sam Smith sells more shoes in an enlarged and renovated store. It comes when the Johnsons begin to save regularly for a new home, or when an industry in a community expands its plant or markets a new product. It comes when a city finances a new water system.

These are the elements of bank progress, provided you have had a share in them. Some financial institution makes it possible for all of these to happen. Some institution was at the family dinner table, the corporate board meeting, the farm mail box, the city council meeting, when a decision was made. Was it your bank? Were you represented there? Or was it a finance company for Jones, a Government lending agency for Smith, a savings and loan for the Johnsons, an insurance company for the widgett factory, or an out-of-town syndicate for the city council? You could have done it all, caused it all, profited from it all. And in turn, maybe you could have added a credit analyst, a drive-in window or a new bookkeeping machine.

Somebody sold these people. Somebody showed them the way, won their confidence, and helped them to achieve. I hope it was a banker who had become a salesman too, one who realized that banking today is a selling business.—WILLIAM E. SINGLETARY, vice-president, Wachovia Bank & Trust Co., Winston-Salem, N.C., at First National Bank of Chicago's correspondent conference.



Build Your Own Business Barometer

This step-by-step explanation in simple terms tells how to construct a business conditions index for your own community

ALGIN B. KING

The author is professor of business administration and director of the Bureau of Business Research at the College of William and Mary. He was in charge of a program establishing a business index for Williamsburg, Va.

A LOCAL city business index is relatively easy to set up and inexpensive to maintain. Such an index is of particular value to the banker who is often in the position of financial consultant and adviser to businessmen. The banker also needs to have an accurate appraisal of local current business conditions to serve in his capacity as a lending institution.

Such an index can be initiated and continued by a Chamber of Commerce or by a local college. However, a bank is also in an excellent position to undertake the task. Bank officers are accustomed to getting confidential information in the normal course of their operations. Businessmen, who would have to supply such information for an index, recognize this fact and have confidence in the banker's integrity.

The Time and the Place

An important initial step in establishing an index is to define the geographic area to be included. This is usually not a problem in the smaller city or town. Generally the whole town or city should be included for index purposes. However, if the area of business activity is not limited by political or civic boundaries, then the economic aspect should be paramount and the artificial boundaries ignored.

Next, a base period must be selected. Every effort should be made to select a period that is reasonably typical for business activity in the community. Also, the more recent the base period, the more meaningful the index will be for the business community. A 1-year period will serve reasonably well in the smaller community. A 3-year period is more desirable, but requires more work initially to secure and compile the necessary data.

Picking the Indicators

Now you're ready to select the components for the index. The following are suggested as being highly desirable components for the average small to medium size community: bank debits (or demand deposits); ticket sales of bus, train, or airline; department store sales; specialty store sales; restaurant sales; hardware and building supply sales; and newspaper advertising linage. In addition, any components which are indicators of business activity peculiar to the community should be considered.

Wherever possible, two or three firms should be selected to represent each component. This should be adequate to reflect trends for each line of business. As a generality, 15 to 25 organizations reporting monthly are adequate for the type of index under discussion.

Getting the Raw Material

The time has now come to collect the data for the index. It is necessary to collect base period information and set up reporting procedures for collecting current monthly figures. Suppose you've picked the year 1959 for your base period. Each component firm must be asked to furnish 1959 data broken down by months. In addition to this "one-time request" an arrangement must be worked out for collecting future monthly data as soon as it becomes available. Usually this can be done by telephone or by the mailing of a simple form.

After getting all the information for the base period, the index can now be set up. The first step is to reduce the monthly data for each component firm to a daily average. This will eliminate the problem of one month in a given year having more working days than in another year, thus distorting the actual increase or decrease in business activity for a particular firm.

Refining the Data

The procedure consists of dividing each firm's monthly dollar or other data by the number of working days in the month for that particular firm. Say a food store had a dollar volume of $52,000 for the month of March 1959 and was open 26 days in that month. This would give an average daily sales figure of $2,000.

If the base is to consist of just the one year, 1959, then this average daily figure of $2,000 for March becomes the March base for this particular food store. A similar procedure is used to arrive at a base figure for each month for every one of the components.

If you've picked a 3-year base period, the procedure is exactly the same except the monthly base figure is derived by averaging the three like months of the base period together. If the base period is 1957-1959, the March base figure will be the average of the March figures for 1957, 1958, and 1959.

To arrive at the index, you simply divide the current figure by the corresponding base figure. As an illustration, let's take the food store with an average daily sales figure

(CONTINUED ON PAGE 76)

Banker Kadel (left) and Dealer Lemin discuss prospective customers before setting up credit.

"WE SERVE OUR GROWING COMMUNITY BY WORKING WITH OUR PURINA DEALER"

—says Roger W. Kadel, Cashier-Manager, The New Carlisle National Bank, New Carlisle, Ohio

"A few years ago, New Carlisle was a small country town in a rich farming area," says Mr. Kadel. "Today it is a rapidly growing suburb in a great industrial section of western Ohio, yet agriculture still is of major importance.

"We have found our Purina Dealer, William E. Lemin, of New Carlisle Farm Supply, a good teammate in serving this changing community. Together, we have been instrumental in adding to farm income, to our town's rural trade and to our own businesses.

"With our financing and Mr. Lemin's knowledge of Purina Feeding Programs, we have helped full-time farmers get into livestock or poultry on a commercial scale and have enabled part-time farmers to add income.

"We finance thousands of cattle, hogs, some dairy and one big caged-hen operation. We are happy with the kind of business we get through our Purina Dealer."

* * * *

The New Carlisle National Bank financed the Dealer's purchase of his business. It has helped him expand through the addition of Check-R-Mixing and bulk equipment. Operating capital and customer financing are available through the Bank. The Dealer now is one of the Bank's best customers, with annual deposits of about $300,000, and further growth is on the horizon.

QUALITY SERVICE

PURINA . . . YOUR PARTNER IN SERVING ANIMAL AGRICULTURE

(CONTINUED FROM PAGE 74)

of \$2,000 for the month of March 1959. Suppose in March 1960 total sales reach \$58,000 with 27 working days. Average daily sales are \$2,148. The March 1960 index number is then computed by dividing the base period figure of \$2,000 into the current figure of \$2,148 with the resultant index number of 107.4.

A similar procedure is used to arrive at a simple relative index number for each of the other component firms reporting to the index. Each component firm's monthly index is then combined into a composite index of business activity for the community.

Combining the Ingredients

A number of statistical methods of averaging may be used to compute the composite index such as a geometric mean of relatives, a median of relatives, or an arithmetic mean of relatives. However, for the sake of simplicity, a simple arithmetic mean is suggested for use in computing the composite index. This merely involves the simple averaging of all the indexes for the month in question. In like fashion, a yearly index may be computed by adding the monthly composite index numbers for each month and dividing by 12.

An important final step is to make a monthly index report and distribute a copy to each of the participating firms. The form and content may be simple. It should include not only the current index number, but also that of a month ago and a year ago for comparison.

In enlisting the help of businessmen to provide current data for the index, we have found it effective to offer a copy of the monthly report. Also, we stressed that all information supplied is confidential and that even firm names are not quoted in the report.

Proof of the Pudding

"We find the Williamsburg Business Index a very valuable tool in comparing the bank's growth with that of the community and in making forecasts. It gives us a better over-all knowledge of trends in local business."—R. A. Duncan, president, Peninsula Bank and Trust Company.

STATEMENT OF CONDITION

DECEMBER 31, 1959

ASSETS

CASH AND SECURITIES:		
Cash and Due from Banks	$	122,716,643.67
United States Government Securities, direct and guaranteed		327,513,841.00*
Federal Agency Securities		14,170,362.15*
State, County and Municipal Securities		82,936,368.40*
Other Securities		186,253.99
TOTAL	$	547,523,469.21
LOANS:		
Loans and Discounts	$	411,805,118.33
Real Estate Loans (Guaranteed or insured by the United States Government or its Agencies)		160,002,407.85
TOTAL	$	571,807,526.18
OTHER ASSETS:		
Income Earned, but not Collected	$	5,610,822.02
Bank Premises and Equipment		25,043,656.33
Other Real Estate Owned		35,576.11
Customers' Liability under Letters of Credit and Acceptances		666,891.78
Other Assets		1,155,571.62
TOTAL	$	32,512,517.86
TOTAL ASSETS		$1,151,843,513.25

LIABILITIES

DEPOSITS		$1,062,401,277.93
OTHER LIABILITIES:		
Accrued Interest, Taxes and Other Expense	$	2,643,533.59
Income Collected, but not Earned		8,876,320.19
Letters of Credit and Acceptances		666,891.78
Other Liabilities		1,040,882.55
TOTAL	$	13,227,628.11
RESERVE FOR POSSIBLE FUTURE LOAN LOSSES	$	4,477,394.75
CAPITAL ACCOUNTS:		
Capital Stock	$	27,786,775.00
Surplus		32,213,225.00
Undivided Profits		11,737,212.46
TOTAL	$	71,737,212.46
TOTAL LIABILITIES		$1,151,843,513.25

*$227,803,000.00 principal amount deposited as security for public and trust deposits and for faithful performance of court and private trusts.

First Western Bank

AND TRUST COMPANY

Head Office: 405 Montgomery Street, San Francisco

Southern California Headquarters: 556 South Spring Street, Los Angeles

Member Federal Deposit Insurance Corporation

A dairy farm near White River Junction, Vt.

News for Country Bankers

This department is edited by MARY B. LEACH *of* BANKING'S *staff.*

Two New Credit Procedures

A FIELD representative of the U. S. Department of Agriculture, M. R. Janssen, recently gave this report to his superior in Washington, D. C., on new developments in providing credit at the Irwin Union Bank and Trust Company, Columbus, Ind., and, at the suggestion of Norman J. Wall, Fred L. Garlock, head of the Farm Credit Section of Agricultural Finance Research Branch, passed it along to BANKING.

". . . we encountered a couple of new methods of providing credit to farmers:

"First, the use of a line of credit, while not particularly new, is probably made easier by the system they have developed. The farmer goes to the bank and establishes a line of credit. He is given 'Operational Credit Notes' for his use. If he purchases fertilizer for $1,500, he writes out the check to the dealer and fills out the note, signs it, and sends it to the bank which credits his ac-

(CONTINUED ON PAGE 80)

Current Agricultural Situation

The 1959 *crop production* index at 118 (1947-49=100) equaled 1958. Although yields of many crops were well below 1958, expanding acreage of cotton and corn with near record yields held the production index steady.

Cash receipts from farm marketings in the first 11 months of 1959 totaled approximately $29.5-billion, about 3% less than the corresponding months of 1958. A 4% decline in average prices received by farmers accounted for the loss, with the volume of marketings totaling about the same.

Hog producers on December 1 planned to reduce their 1960 spring pig crop 11% below their 1959 spring crop. This will mean higher prices in the last half of 1960 than in the same period of 1959.

Slaughter of *hogs, sheep* and *lambs,* and *cattle* last fall was above a year earlier. Commercial meat production in October exceeded 2.4-billion pounds for the first time in two years. November output declined but remained above a year earlier. Average livestock prices fell below a year earlier as slaughter increased.

Egg production late in 1959 was running a little under October-November 1958. With a smaller laying flock, supplies are likely to continue below a year earlier in the first half of 1960.

Consumption of *fluid milk products* in 1959 was above 1958; milk production was a little lower. This left less milk for manufacturing, and production of butter, cheese and evaporated milk was lower. Prices for milk last fall were generally higher than in the fall of 1958.

Prepared by U. S. Department of Agriculture


Inventory
Total Current Assets

(CONTINUED FROM PAGE 78)

count. Thus he can easily make purchases over a period of time and pay interest only on the money he actually needs.

"The merchants like the system because it permits the farmer to pay for goods upon purchase or delivery. The farmers seem to like the idea because they can get their credit with one visit to the bank. Also, they are able to take advantage of any cash discounts that may be offered.

"The second system is based on the dealer. The bank has agreements with some 250 merchants and dealers. A farmer wishing to make several purchases from several dealers may establish a line of credit with the bank. The bank issues letters of authorization of line of credit to merchants the farmer intends to do business with. When the farmer makes his purchase, the merchant calls the bank to verify the outstanding line of credit. The purchases are itemized on the equivalent of a sales slip. The reverse side of the slip is again a line of credit note. The merchant sends this note to the bank, which credits his account with the proceeds. There is no recourse on the merchant for nonpayment of the note, as the bank itself extends the credit.

"Apparently the merchants, particularly feed, fertilizer, and fuel dealers, have asked for and like this particular arrangement. Again, it has the same advantages as the line of credit discussed above, but the route is a little different."

BANKING thanks Mr. Wall, Mr. Garlock, and Mr. Janssen for this item. We can use more good reports on new and different procedures adopted by banks to enable them to give better service to customers. (Mr. Wall is chief of the Agricultural Finance Research Branch, Farm Economics Research Division, Agricultural Research Service, USDA.)

A Canadian Cartoon Book

THE profitable use of fertilizers in crop production is the theme developed by the Canadian Bank of Commerce's latest cartoon booklet designed for distribution to Canadian farmers through the bank's far-flung chain of branches. The title of the new addition to its long list of handy little cartoon features is *Plant Foods and Profits.*

5-Year Agribusiness Plan

"THE year 1960 heralds the start of a new decade which promises to be one of the most exciting, productive, and satisfying periods in man's history," said J. Russell Duncan, president, Minneapolis-Moline Company, in a recent statement. "Business, industry, agriculture, and the man in the street all have their hopeful sights on these years," he said.

"The decade, however, promises to be less than rewarding for one part of the population—the American farmer—unless something is done quickly to put him in the proper perspective in the eyes of the public," he added.

Mr. Duncan advocates broadcasting these facts:

In 1958, only 11.1-billion man-hours were spent to produce crops and livestock, a record low. This compares with 15-billion as recently as 1950, and with 34-billion in 1920.

Farm field hands currently produce four times as much per man-hour as during World War I.

The productivity rate in livestock production has about doubled over the same period.

Today's farm worker grows enough food, fiber, and tobacco to supply himself and 23 others; the Civil War farmer supported only four others.

Mr. Duncan also called for Congressional cooperation with "agribusiness"—all segments of the food industry, and recommended this 5-year program:

(1) Commodity prices should be first equated to the supply and demand. However, because of the current surplus situation, price supports are still necessary, but should be related to specific commodities, and thus bring about shifts in the planting of crops. Further, such supports must be related to the gross margin factor—the difference between the cost of production and the selling price.

(2) Government should set up budget controls which would establish dollar total ceilings for over-all

(CONTINUED ON PAGE 156)

U. S. Farm Population Continues Long-Time Decrease

ONLY one in eight persons now lives on the farm compared with one in six in 1950 and one in three 50 years ago. Since 1950, the farm population has decreased by 3,900,000, or 15.5%. Today's farm population is 21,200,000, compared with 25,100,000 in 1950.

These are high points in a report presenting estimates of the farm population prepared cooperatively by the Bureau of the Census, United States Department of Commerce, and the Agricultural Marketing Service, United States Department of Agriculture.

Population of the United States, Including Armed Forces Overseas and Farm Population—April 1950 to 1959

(Figures exclude Alaska and Hawaii)

Year	Total population including Armed Forces overseas	Farm population	
		Number of persons[1]	Percent of total population
1959	176,264,000	21,172,000	12.0
1958	173,359,000	21,388,000	12.3
1957	170,496,000	21,606,000	12.7
1956	167,509,000	22,362,000	13.3
1955	164,607,000	22,438,000	13.6
1954	161,761,000	22,099,000	13.7
1953	159,012,000	22,679,000	14.3
1952	156,421,000	24,283,000	15.5
1951	153,691,000	24,160,000	15.7
1950	151,132,000	25,058,000	16.6

[1] April-centered annual averages, except for 1950.

Bank Capital Problems in Rural Areas May Become Crucial

LAWRENCE E. KREIDER

DR. KREIDER, *an agricultural economist, is assistant secretary of the Agricultural Commission of the American Bankers Association.*

Increasing the average capital accounts of banks appears destined to become more important to improved services, particularly for many banks in rural communities. This editorial is not designed to provide a complete solution. However, it may form the basis for the first step—realization of an imminent problem.

HAVE we become too complacent about the ability of banking to serve the credit needs of increasingly larger businesses — including commercial family farms? Have we been lured into this complacency by the infrequency with which bank farm loans pushed the legal lending limits of country banks?

Available data suggest that for the United States as a whole, the average size of bank farm loans outstanding is less than 2% of the average capital funds of banks in respective farm communities. Clearly, this average is well within legal and judicious lending limits. Although most rural bankers can cite cases in which credit needs of individual farmers exceed their bank's lending limit, studies have shown that such situations represent a small proportion of bank loans. Thus, why be concerned?

Farm Loan Size and Bank Capital Trends

The answer to that question is to be found more in the direction of trends than in the present relationships between loan size and bank capital.

From 1940 to date the average capital per bank in the United States increased approximately 200%. According to data developed by the Agricultural Finance Research Branch of the United States Department of Agriculture, capital of banks in rural areas apparently increased at nearly the same rate.

At first glance, this increase seems excellent. In view of the problems confronting banking, it is! However, progress is relative. Within the last 20 years, the average size of commercial farm loans increased more than 400%—over twice as fast as the average increase of capital per bank.

These persistent trends lead to the discomforting expectation that the relationship between loan size and bank capital may, within a decade, prove to be a severe problem for country banks.

There is very little, if any, reason to expect relief from these challenging trends. Rural economic changes—including larger farms, a great magnitude of replacements for capital items, an increasingly higher rate of annual cash operating expenses, and the decentralization of industry to what was heretofore basically farming communities—are so rapid and persistent as to insure continuation or acceleration of the rate of increase in the size of loans which will be made.

Why Limited Bank Capital Growth?

There also is very little hope for relief from capital problems of unit banks in rural areas.

To a large degree, the rate of accumulation of bank capital reflects bank earnings. Historically, returns on bank capital averaged lower than nearly every other major industry. The net profit on bank services simply tends to be relatively narrow!

The persistent reasons for this low margin and the opportunities for improvement were outlined in "Bank Earnings During the Sixties" by E. Sherman Adams, in January BANKING. Country banks are confronted with most of the earnings problems of city banks and, in addition, enjoy fewer of the economies of size.

Further, income and capital growth of banks in many rural areas is restricted by a relatively repressed interest rate structure. Unlike production credit associations, Federal Land Bank associations enjoy major tax subsidies. Largely as a consequence, they lend at an artificially low rate. To the extent this reduces rates, banks are deprived of reasonable income and capital accumulation.

The income and capital problem is compounded by the fact that banks' closest farm credit competitors, production credit associations, have displayed the potential to build their capital structures as rapidly as the average increase in farm loan size! Satisfactory accumulation of equity capital by PCA's plus orderly retirement of Government capital were attained while most associations were paying taxes on very nearly the same basis as banks of comparable size.

The trends suggest the inevitability of severe competition for country banks. Their ability to meet it depends in part on capital growth. Historically, this growth came primarily from earnings. Herein, rests a major part of the problem.

Farm Incorporation Advantages and Disadvantages

"Incorporation is the right move for a few large and profitable farm businesses. It is *not* the answer for a large majority of family farms."

ROBERT S. SMITH

DR. SMITH *is professor of farm management, Department of Agricultural Economics, Cornell University, Ithaca, N. Y.*

THERE is greater interest in incorporating the farm business than ever before. A rapid increase in size and dollar investment of commercial farm businesses is the primary basis for this interest. Growing concern over the personal liability of farm owners to their employees and the public is another. Tax considerations are a third reason why more farm owners are wondering about incorporation.

Despite the drastic changes which have taken place in commercial farming in the last 20 years, one thing has remained unchanged—most commercial farms in the United States today are family-owned and family-operated, just as they always have been. The typical family farm has grown rapidly in acres, in dollar volume of business, and in dollar investment. Many farm families are wondering if their growing businesses could not be operated to better advantage as corporations. So far, few have taken the step. Less than 1% of all farms are incorporated. Perhaps 5% to 10% are operated as partnerships, but the great bulk are still individual proprietorships.

Why Incorporate

Incorporation is desirable for some large families operating large farm businesses. The possible advantages of incorporation are these:

Division of Ownership: The corporate form of business organization is more flexible than any other. The ownership is represented as shares of stock. This stock can be divided among various members of the family in proportion to their contributions to the business. It is much easier to divide shares of stock than to divide acres, buildings, machines, or livestock. In a large family with a large business, stock can be transferred to each son as he matures and takes his place in the business.

Limited Liability: In an ordinary farm business, each owner has unlimited personal liability for the contractual or tort liabilities of the employees or the owners themselves. By incorporating, the owners can limit this "business liability" to the assets of the corporation. This can be very important if the business is large, employs seasonal or transient help, or has an unusually large number of contacts with members of the public. Limited liability is more important when the farm family has sizable nonfarm assets than when the farm represents all the assets of the family.

Owners Become Corporate Employees: Following incorporation of the farm business, family members become employees of the corporation. Gaining status as an employee has some advantages. The corporate employee may be covered by compensation insurance, group health insurance and retirement plans, and maintains a level income to build up Social Security benefits even though corporate income continues to fluctuate from year to year.

A More Formal Organization: The corporation provides an incentive to do business in a more businesslike way. As officers of a farm corporation, father and sons should find it easier to have regular weekly meetings to discuss management problems, to divide responsibility, to keep accurate records, and to provide for development of future leadership for the business.

Some Disadvantages

Among the disadvantages of incorporating the farm business are red tape and additional expenses. These problems should be carefully weighed against the advantages already listed.

The Business of Incorporation: The paperwork, bookkeeping, and other "red tape" involved in forming and operating a corporation are greater than for an individual proprietorship or a partnership. Even though the problems created by this red tape are often more imaginary than real, it is true that for the average farm business there just isn't enough to be gained by incor-

porating to offset the added bother.

The procedure for forming a corporation varies from state to state, but basic requirements are quite similar. The first step is to retain a lawyer with a good knowledge of farming. An appraisal of all farm property to be included in the corporation should be made. A pre-incorporation agreement should be drawn up between members of the family who will participate in the corporation. This agreement should state what each family member is to contribute in the form of property, services, and management. In most states, a certificate of incorporation must be filed with the Secretary of State or Attorney General. This certificate must list the names of officers and stockholders, and the purpose and nature of the corporation.

After incorporation, certain practices must be observed in corporate bookkeeping. Most states require that a stock book be kept and made available for inspection. Corporate tax returns require more information than do regular farm tax returns.

An Attorney Needed

An attorney is definitely needed to help establish the corporation, and an accountant's services may be needed to establish a corporate bookkeeping system. However, some farm families find it possible to do all their own corporate bookkeeping once the system is set up and in operation.

The Costs of Incorporation: It costs money to incorporate, but the initial costs involved are seldom so great as to be the determining factor on deciding whether or not to incorporate. Costs vary from state to state, but here is a list of estimated costs in one northeastern state for a $100,000 farm business:

Organization taxes and fees	$ 50-$100
Federal stamp tax	$110
Fees for legal counsel	$200-$500

Unusual or complicated arrangements might make the attorney's fee higher. In addition to the stamp tax on stock issued, there is a tax levied when stock is transferred. Some states levy an annual excise or franchise tax on corporations.

The corporation will also result in some additional annual expenses, including greater total Social Security taxes and higher premiums on workmen's compensation insurance.

The Tax Question

The tax effects of incorporating the family farm will vary greatly from one family to another. A careful study of the tax effects should be made before deciding to incorporate. In some cases, taxes can be materially reduced by incorporating. In other cases, they will be substantially increased. But in most cases, they are not likely to be changed enough to be a deciding factor.

In forming a corporation, the farm property transferred to the corporation will normally be assigned the same income tax basis in the corporation as it had in the hands of the former owners; thus no tax gain results at the time the corporation is established.

What to Do About Our Basic Farm Financial Problems

A.B.A.

THE first step is to recognize the fast rate at which farming is becoming a specialized business. An increasing amount of the factors of production are being purchased from off the farm. Farm financial problems have shifted, reflecting this sharp increase in cash outlays. Capital replacements and annual-type production expenditures simply "eat up" an increasingly larger proportion of cash farm receipts.

This does not necessarily mean that agriculture is weak or exposed to excess risk. However, it does suggest that we should take every practical step within our power (1) to draw enough capital funds to rural areas, (2) to sharpen up our management and judgment as to which farmers show promise of being most efficient and eventually most successful, and (3) to maintain a fair, competitive interest rate structure for rural areas.

The latter, the interest structure problem, is partly banking and partly political. So far as subsidized interest rates are concerned, it may take a lot of persistent, effective encouragement to attain a fair, competitive environment which should be our goal.

The interest rate problem is truly a paradox whereby those who claim to be helping farmers may indeed be hurting them by driving out far more capital funds than they bring in via the subsidized credit route. The banking fraternity simply is confronted with this insidious notion—one held by much of the public and some political figures—that artificially low interest rates to farmers are generally good for farmers. Nothing could be further from the truth. Artificially low rates can be as harmful as artificially high rates; perhaps more so!

Somehow, we must get across to the public and to legislators the idea that a fair, competitive rate serves a vital function in our economy. It provides an important guide to those managing or allocating capital funds. It helps tell them where the economy and society want them as lenders to allocate funds and how much to allocate to each area, industry, or individual business.

The alternative as far as agriculture is concerned—and it is a poor second choice—is a highly socialistic state of affairs whereby a few people at a centralized level control the decisions as to which industries or individual businesses receive more—or less—credit. Inevitably, such persons would become compelled to base their decisions on narrow political grounds rather than on economic or long-run social logic.

Reflecting our rapidly shifting farm financial needs and growing demand for capital investments in our economy generally, we can expect it to become more difficult for rural communities to get needed funds from outside their respective areas. Meeting this challenge requires our constant attention (1) to the political forces as they affect such things as subsidized rates, (2) to the correspondent relationships of banks within the banking industry, (3) to the opportunities which may accrue from having all trained men to evaluate the efficiency and probable success of respective farm operations, and (4) to the relationships between banks and insurance companies, the largest institutional source of real estate farm mortgages.—JOHN H. CROCKER, president, The Citizens National Bank, Decatur, Ill., and chairman, Agricultural Commission, A.B.A. at the American Bankers Association's 12th National Credit Conference in Chicago.

A 1958 change in the Federal Tax Code provides an opportunity for small corporations to by-pass the Federal corporate income tax if all stockholders agree. In such a case, corporate income is divided among the stockholders and taxed as individual income just as though no corporation existed. It seems likely that this "pseudo corporation" tax arrangement will be used to advantage by farm family corporations in the future.

If a family farm corporation does not elect to be treated as a pseudo corporation, one objective will usually be to set salaries to family members high enough to drain off all corporate profit. If the corporation is allowed to show a profit, taxes will be increased. Corporate tax rates are higher than individual income tax rates at lower levels of income. Furthermore, if the corporation later pays out realized profit as dividends, double taxation results.

For a few very profitable farms, it is advantageous to be taxed as a corporation. This is true because corporate tax rates at higher income levels are lower than individual tax rates.

When Is a Corporate Farm the Answer

In any of the following situations, the possibility of incorporating the farm business deserves consideration:

- When two or more family members are farming together.
- If it is likely that three or more family members will be owning and operating a farm together in the near future.
- Where $150,000 or more is invested in farm property.
- For a farm family with $20,000 or more of nonfarm assets.
- If a large amount of seasonal labor is employed.
- When a retail business is operated.
- If the business is so profitable that the owners can frequently expect to be in the 34% personal income tax bracket or above.

Incorporation is the right move for a few large and profitable farm businesses. It is *not* the answer for a large majority of family farms. The greatest possible advantage is the increased flexibility of ownership. This is important when complex family ownership and operating arrangements exist. The greatest disadvantage is the extra red tape involved. For the average farm family the possible advantages just are not worth the extra bookkeeping, tax reporting, and other paper work which come along with the corporation.

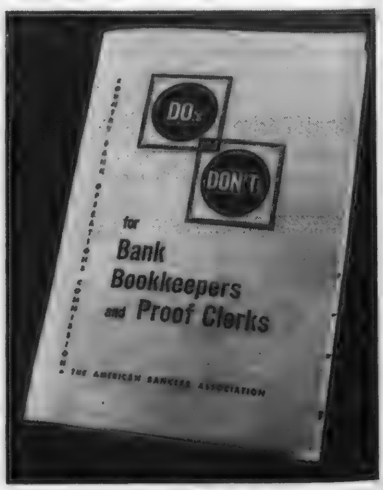
Do's and Don'ts Books Are Still Available

BESIDES furnishing each member bank one free copy of its *Do's and Don'ts for Bank Bookkeepers and Proof Clerks*, the A.B.A.'s Country Bank Operations Commission has distributed since March 1959, 11,104 copies of this guide. Copies of this *Do's and Don'ts* book are still available at $1 each.

Since March 1952, when the CBOC published its *Bank Tellers' Do's and Don'ts*, it has distributed 41,556 copies in addition to the free copy sent to each member bank. Additional copies of this popular and timely publication are also available at $1 each.

In addition, CBOC has 16 other publications available which are designed as guides to various aspects of bank operations and management, including: *A Complete Service Charge Program for Smaller Banks; Trends in Bank Costs;* and *How to Set Up an Audit Program in Smaller Banks*. Also see page 88.

Orders for these guides should be sent to the A.B.A. Department of Printing, 12 E. 36th Street, New York 16, N. Y.



Small Bank Miscellaneous Service Charge Survey

Banks of Less Than $7,500,000 Covered in Study; Copy Has Been Sent to Each A.B.A. Member

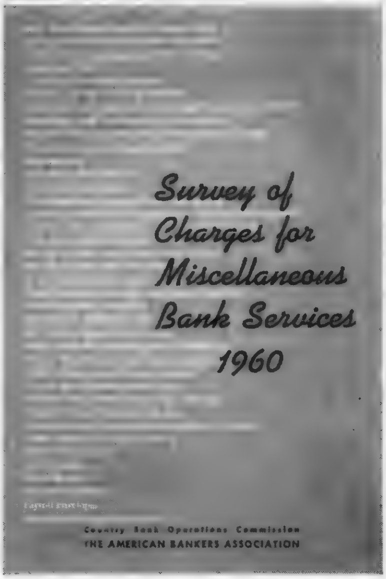
UP-TO-DATE information regarding miscellaneous service charge practices of smaller banks throughout the country is being distributed in booklet form by the American Bankers Association's Country Bank Operations Commission. The new booklet, *Survey of Charges for Miscellaneous Bank Services—1960,* contains the results of a recent survey conducted among banks in that group with total assets of less than $7,500,000. These data provide management of smaller banks with a "tool" to aid them in making comparisons of their present miscellaneous service charge policies with those of other smaller banks throughout the country. Such comparisons call attention to services not included in present programs and provide the basis for considering the advisability of broadening them.

Range of Actual Rates in Use

Although the results include the range of actual rates in use by smaller banks, attention is directed to the fact that these rates indicate present charges and not actual costs. In fact, many of the charges for miscellaneous services were first applied in recent years. Therefore, similar to the original approach to the solution of the service charge problem pertaining to regular checking accounts, the initial rates adopted for these services in many cases do not reflect current costs. For instance, the survey results show the following charges for issuing a cashier's check, treasurer's check or bank draft:

	Charges	*Percent of Banks Charging*
Low	1¢ to 5¢	9%
Median	6¢ to 10¢	54%
High	26¢ to 50¢	1%

However the most recent cost data available from a survey of 124 smaller banks which were cost analyzed for 1958 by the commission showed the following costs for drafts and cashier's or treasurer's checks:



	Bank Drafts	*Cashier's or Treasurer's Checks*
Low	$.097	$.097
Median	$.198	$.206
High	$.373	$.373

Because of the apparent discrepancies between costs and charges, *each bank should independently determine by a cost analysis of its operations its actual per item costs and base its rates accordingly.*

Ordinarily, miscellaneous service charges are made to put certain activities on a profitable basis. However, some of these charges are also intended to discourage unsound practices by bank customers, such as drawing checks against insufficient and uncollected funds.

The 80-page booklet provides detailed coverage of items and transactions under the following general headings:

(1) Paying and Receiving Services
(2) Club Accounts and Savings Accounts
(3) Night Depository, Safe Deposit, and Storage Services
(4) Collection Services
(5) Investment Services
(6) Supplies and Other Services

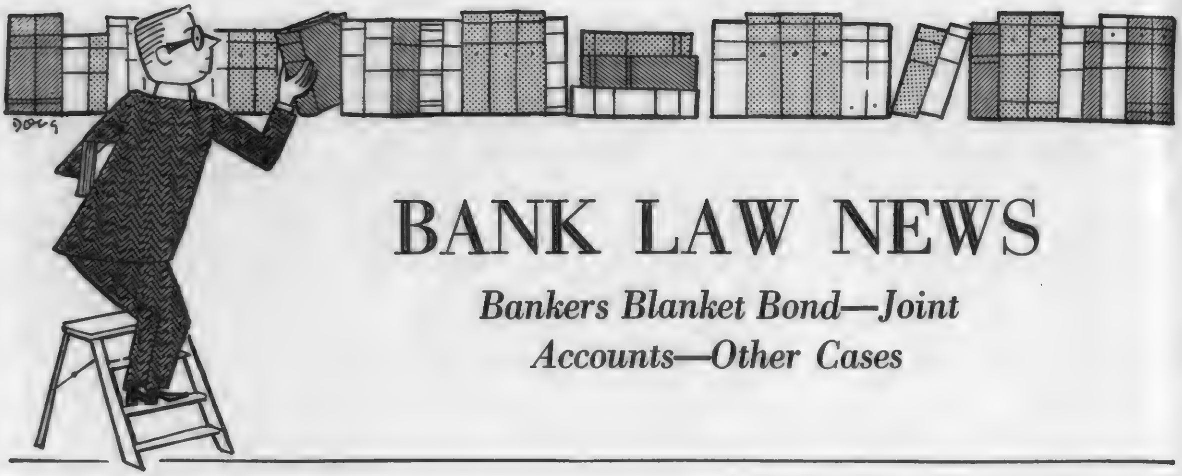
Under these general headings there are a total of 59 services being provided by smaller banks. It does not include services of a local nature, such as cream checks, or credit and trust operation services, because these transactions in some states are subject to state laws and regulations. The survey results reflect variations in the manner in which rates are applied, for instance some banks make direct charges to customers for some of these services while others include the charges in the analyses of the depositors' accounts.

One copy of the booklet is being mailed to each member of the Association, with additional copies available at 50 cents each.

Members of the commission include:

Officers: Thomas G. Wilson, president, First State Bank, Conway, Ark., chairman; George R. Amy, deputy manager, American Bankers Association, in charge; and Charles E. Betts, Jr., A. B. A., secretary.

Members: K. G. Braley, president, Farmers Exchange Bank, Cherokee, Okla.; John Carlander, president, State Bank of Faribault, Faribault, Minn.; Thomas O. Cooper, president, Jefferson (Iowa) State Bank; L. Y. Dean, III, president, Eufaula (Ala.) Bank & Trust Co.; M. C. Deitrick, vice-president, Mid-Columbia Bank, Pasco, Wash.; Denton A. Fuller, president, Citizens National Bank, Wellsville, N. Y.; F. A. Gallaugher, executive vice-president, Jeff Davis Bank & Trust Company, Jennings, La.; Joseph A. Hauck, executive vice-president, Exchange Savings Bank, Mount Pleasant, Mich.; Garland Johnson, president, The Bank of Elkin, N. C.; James B. McKeever, executive vice-president, First National Bank of Holly, Colo.; Gene E. Parker, executive vice-president, Peoples Bank, Hazard, Ky.; L. G. Sadler, president, The Citizens Bank, Cookeville, Tenn.; Laurel W. Thompson, president, Washburn (Maine) Trust Company; and Blaine H. Wiseman, president, Old Capital Bank and Trust Company, Corydon, Ind.



BANK LAW NEWS

Bankers Blanket Bond—Joint Accounts—Other Cases

BANKERS BLANKET BOND

Forgery exclusion in Bankers Blanket Bond applies although every element of statutory offense of forgery is not present.

A PERSON, pretending to be a customer with an account at the plaintiff bank, appeared at a teller's window at closing time. He presented a deposit slip listing checks payable to his order. The teller accepted the deposit and paid the "customer" part of it in cash, which the customer stated he needed for payroll purposes.

Then, in the words of the teller, "Fearing the bank had been the victim of this person's false pretenses, we immediately checked with some of the persons whose names appeared on the checks and were advised the checks were not drawn by them. The checks were not sent through for collection after it was determined they were apparently forgeries."

The bank sought recovery for the loss against the bonding company under Clause B of the Bankers Blanket Bond, Standard Form No. 24, which provides coverage against any loss of property through false pretenses. Indemnity against loss by forgery, originally provided by the bond, had been eliminated by endorsement.

Liability was denied by the bonding company on the ground that the bond expressly excluded "any loss effected directly or indirectly by means of forgery." The bank contended that the forgery exclusion was not applicable for the reason that the checks, though worthless, were not forgeries because it was not shown that they were initially drawn without authority, one of the elements of forgery under the Texas Penal Code. The court rejected the bank's contention and awarded judgment to the bonding company.

The court noted that it had found no appellate court decision which required every element of the statutory offense of forgery as a prerequisite to recovery, or as a defense, under the terms of the bond.

The court also pointed out that whether the bank's loss was effected directly or indirectly by means of a forgery so as to come within the bond's exclusion was "not clearly answered by the terms of the bond," because the word forgery was not defined.

Nevertheless, what happened here was that someone, with intent to defraud, had issued a false written instrument purporting to be the act of another and this act, directly or indirectly, effected the bank's loss. Therefore, said the court, the forgery exclusion was applicable. First National Bank of Lancaster, Tex., v. Glens Falls Insurance Co. (Tex. Civ. App.) 329 S.W. (2d) 115.

JOINT ACCOUNTS

Idaho court rules oral evidence admissible to vary or contradict joint account agreement; Pennsylvania court rules to the contrary.

THE Idaho Supreme Court recently stated, in a case involving the survivor's title to the funds in a joint checking account, that the "joint account agreement and its legal effect have been a subject of controversial discussion by almost all of the courts in the United States." And, apparently, there's no end in sight to the controversy on this question.

In the Idaho case, the depositor, an 88-year-old attorney, had executed, together with his nephew and his nephew's wife, an agreement which provided that all sums deposited in his checking account were to be owned by all of the parties jointly, with right of survivorship.

After the uncle's death, the nephew withdrew the money and the administrator of the uncle's estate brought an action to recover the funds. The nephew's defense was that his uncle, by virtue of the joint account agreement, had made a gift of the money in the account.

Evidence of Intention

Oral evidence was introduced to show that the uncle "intended the agreement to be for business convenience and necessity." The court concluded that a gift has not been effected and granted judgment to the administrator.

After conceding that the form of the agreement could effect a gift, the court stated that the agreement could not be strictly enforced without regard to the intention of the parties making it. Therefore, where "competent evidence, and all the reasonable inferences to be drawn therefrom, establish an intent of a depositor, since deceased, contrary to that indicated in the creation of a joint account, the assertion of a joint tenancy will not be sustained."

Once the question of the uncle's intent had been raised, the nephew and his wife were required to prove, by clear and convincing evidence,

(CONTINUED ON PAGE 92)

(CONTINUED FROM PAGE 90)

that a gift had been made. This burden of proof, said the court, the nephew had not successfully carried.

Dissenting Opinion

The dissenting opinion pointed out that the effect of the majority opinion was to "create further uncertainty as to the effect of joint-and-survivorship bank accounts on the death of an owner-depositor." What the majority decision amounts to, said the dissenting justices, is a ruling that the creation of a joint account, with right of survivorship, in the manner selected by the now deceased depositor, is without force or effect; the decision would permit such an act to be challenged in virtually every instance; and it would put the survivor in the position where he would have to prove that the deceased depositor "did precisely what he unequivocally stated in writing that he did." Idaho First Nat. Bank v. First Nat. Bank of Caldwell (Idaho) 340 Pac. (2d) 1094.

Supreme Court Ruling

However, the Pennsylvania Supreme Court ruled that in the absence of fraud, accident, or mistake, oral evidence was not admissible to show that the parties had not intended to create a joint tenancy with right of survivorship.

In the Pennsylvania case the parties, unrelated to each other, had opened a two-name savings account. They had signed a signature card which provided that all sums deposited in the account belonged to the depositors as joint tenants. The bank was directed to deal with the survivor as the sole and absolute owner of the funds in the account. The agreement also provided: "We intend to be legally bound hereby! and this agreement shall bind our respective heirs, executors, administrators, or assigns."

The court held that the survivor was entitled to the funds on deposit. Where no fraud, accident, or mistake is alleged or proved, oral evidence to show that the parties merely intended to create a joint account for the convenience of the now deceased depositor will not be admitted. To permit such evidence would circumvent or undermine the integrity of a written instrument which is complete

and unambiguous on its face. In re Amour's Estate (Pa.) 154 Atl. (2d) 502.

BRIEF NOTES ON OTHER CASES

Trust receipts. Where trustee in trust receipt transaction sold trailer in ordinary course of business to innocent purchaser in breach of trust receipt agreement requiring discharge of trust receipt lien before sale, and purchaser executed negotiable note and conditional sales contract which trustee negotiated and assigned to bank, an innocent purchaser for value, bank took note and contract free of interest of entruster. Dart National Bank v. Mid-States Corp. (Mich.) 97 N.W. (2d) 98.

Assignment of claims. Where contractor borrowed money from bank and as security assigned proceeds of Government construction contract, and bank received progress payments thereunder, sureties on contractor's performance and payment bonds could not, in absence of fraud, recover such payments from bank to reimburse sureties for sums paid by them because of contractor's default after bank had collected progress payments. American Fidelity Co. v. National City Bank of Evansville (C.A., D.C.) 266 Fed (2d) 910.

Forged check statute. Florida forged check statute, which provides that no bank paying a "forged check" shall be liable to its depositor unless the depositor gives timely notice of the forgery, does not apply to forged endorsements; depositor's failure to give notice of payee's forged endorsement did not bar his right of action against drawee bank. Edgerly v. Schuyler (Fla. App.) 113 So. (2d) 737.

FDIC assessment credit. Where mutual savings bank paid Federal Deposit Insurance Corporation assessments in 1951, and received assessment credit from FDIC in 1952, when bank first became subject to Federal income taxation, assessment credit constituted taxable income for 1952. This decision affirms case reported in March 1959 issue of BANKING. Philadelphia Savings Fund Society v. U. S. (C.A., Pa.) 269 Fed. (2d) 853.

BANKING NEWS

Selective Credit Policies Play Key Role in Dollar Stability, Says Remington

Discusses Growth, Inflation on TV's College News Conference

Selective credit policies must continue to play a key role in maintaining the stability of the dollar, John W. Remington, president of the American Bankers Association, declared in a nationwide radio and television program presented by the American Broadcasting Company. Appearing as guest on "Ruth Hagy's College News Conference," Mr. Remington discussed the growth-without-inflation problem and other economic questions during the 30-minute program in which students from five leading universities took part. Mr. Remington is president of the Lincoln Rochester (N. Y.) Trust Co.

"The continuance of a reasonable tight money policy," the A.B.A. president asserted, is especially important "when business is moving along as well as it is." With prospects for "another excellent year in 1960," he said, it is essential that the Federal Reserve keep credit from moving "into an inflationary zone."

Under present economic conditions, he added, a balanced budget could also contribute much to the stability of the U. S. economy. Asked whether he would favor increased taxes to balance the budget, he said he "naturally" hoped this would not be necessary. "If it was just a little out of balance," he continued, "I wouldn't favor a change in the tax law; but if it is going to be much out of balance, I feel that we taxpayers, whether corporate or individual, ought to pay the shot."

Maintaining the purchasing power of the dollar, he emphasized, is a responsibility which the general public must share with the Federal Government. The fight against inflationary forces, he said, is one "requiring the help of people in all classes of life, in all types of business, the people in labor, and in all the segments of our economy."

A.B.A. President Remington with Ruth Hagy, moderator and producer of the ABC network program "College News Conference." Mr. Remington discussed the problems of promoting economic growth without inflation with a panel of students, including, *from the left:* Derek Winans, who is president of the Young Democrats at Harvard University; Alan Hutchinson, editor, *George Washington Law Review*, George Washington University; Carol Dawson, Catholic University, and executive secretary of College Youth for Nixon; Bonnie Feldesman, editor, *Diamondback*, University of Maryland; and Edward F. Thomas, Jr., Wharton School of Business, University of Pennsylvania

Since 1909, when the American Bankers Association first engaged the William J. Burns International Detective Agency, Inc., the services of the agency in the prevention and detection of crimes against banks have been an important aspect of membership in the Association. Commemorating this 50-year relationship, John W. Remington, *right*, president of the A.B.A. and president of the Lincoln Rochester Trust Company, Rochester, N. Y., and Merle E. Selecman, *left*, A.B.A. executive vice-president and executive manager, met recently at the A.B.A.'s New York office to discuss the Burns agency service to the member banks with Raymond J. Burns, chairman of the detective firm

Discussing the effect of rising interest rates on industrial expansion, Mr. Remington expressed the opinion that "cost of capital" was not impeding over-all progress along these lines since interest rates represent "a very small portion of the cost of doing business."

As for the effect of the current interest rate on the small businessman, he emphasized that here too interest represents only a very small part of the over-all cost picture. The determining factor as to whether a business of any size is successful or unsuccessful, he said, is not the interest rate but generally the caliber of the "management."

A.B.A. Plans Series of 2-Week Executive Development Seminars in 1961, Brief Pilot Seminars for Late 1960

Consideration was given by the A.B.A.'s Committee on Executive Development at a recent meeting in New York to procedures to be followed in establishing a continuing series of executive development seminars on the campus of Rutgers—The State University, New Brunswick, N. J., when the new conference facilities are available in the fall of 1961, according to William L. Butcher, chairman, The County Trust Company, White Plains, N. Y., and chairman of the committee.

Mr. Butcher announced that the committee contemplates a series of 2-week seminars or conferences, starting in the early fall of 1961 and continuing through to the late spring on all aspects of developing people for the higher level positions in banks and to which top drawer bank executives would be invited. Particular attention will be given, he said, to the presidents and executive vice-presidents of the smaller banking institutions.

Starting this fall and continuing through next spring, the committee expects to hold a series of pilot seminars in various sections of the county. These meetings will be of shorter duration and will use hotel facilities.

Anticipates Valuable Data

The committee anticipates that valuable data will be developed as a result of these pilot sessions and that they will be useful to it in conducting the 2-week seminars starting in the fall of 1961.

At its New York meeting, the committee also reviewed A.B.A. publications pertaining to recruitment and development of top management people. These publications are designed as aids to banks in developing potential management succession and consideration was given to which of these publications should be upgraded and which, if any, should be eliminated in order to provide more assistance to the banks.

The committee also discussed the possible avenues along which the Council of Banking Education study of banking schools should progress from the executive development point of view.

Among those attending the meeting of the Committee on Executive Development were: William L. Butcher, chairman, The County Trust Company, White Plains, N. Y., chairman; William Powers, senior deputy manager, A.B.A., registrar of The Stonier Graduate School of Banking, and committee secretary; C. Edward Berryman, vice-president and director of personnel, Marine Trust Company of Western New York, Buffalo; Henry C. Coleman, president, Commercial Bank of Daytona Beach, Fla.; James J. Durkin, vice-president and cashier, Colorado National Bank, Denver; Sheldon F. Goldthwait, president, Bar Harbor (Maine) Banking & Trust Co.; Malcolm E. Lambing, vice-president, Pittsburgh (Pa.) National Bank; Wendell C. Laycock, president, Fort Wayne (Ind.) National Bank; and John N. McLucas. T. Allen Glenn, Jr., president, Peoples National Bank, Norristown, Pa., and a member of the committee was not present. Also attending were John Patterson Currie, management consultant, New York, and George B. Ward, deputy manager, A.B.A., who is director of Bank Personnel Administration, secretary, Committee on Employee Training, and assistant registrar of the S.G.S.B.

13th All-Time Midyear Membership Record of 149,093 Set by A.I.B.

The American Institute of Banking continues its tremendous growth by setting another all-time high in membership and enrolments, according to James D. Keckley, of American Fletcher National Bank and Trust Company, Indianapolis, who is chairman of the Institute's National Membership and Enrolment Committee. The midyear membership figures for the A.I.B. set a record high for the thirteenth consecutive year, Mr. Keckley pointed out.

59,584 Class Enrolments

The membership of the A.I.B. on January 1, midpoint of its scholastic year, was 149,093, with 60,072 class enrolments. This membership compares with 138,611 at the same time last year. There were 59,584 enrolments on January 1, 1959.

During 1959, five new Institute chapters were formed, bringing the total A.I.B. organizations to 309 chapters and 174 study groups in as many cities and towns.

California continues to have the largest A.I.B. membership — 20,510 members in 34 chapters and study groups. California shows also the largest growth in membership during the year, with the state's total membership increasing by 1,568.

The A.B.A.'s Executive Development Committee at a recent New York meeting. Seated, *left to right*, Secretary Powers and Chairman Butcher. Standing, *left to right*, Messrs. Laycock, Berryman, Goldthwait, Coleman, McLucas, Lambing, Durkin, Currie, and Ward

WEIMAN & LESTER

Banks Notify Customers of Interest-Dividend Income Tax Liability

Treasury and A.B.A. Notice Forms Available as Statement Stuffers

Bankers throughout the nation have responded wholeheartedly to the request of A.B.A. President John W. Remington that they use either the notice prepared by the U. S. Treasury Department or one prepared by the American Bankers Association to notify customers that stock dividends, interest on savings accounts, Government bonds, savings and loan share accounts, etc., are subject to Federal income taxes and should be reported on tax returns.

In his letter to member banks, dated December 16, 1959, Mr. Remington, who is president of the Lincoln Rochester Trust Company, Rochester, N. Y., said:

"I am making this request because of our concern that every person pay his fair share of taxes and because there is a very real danger that legislation requiring the withholding of Federal income taxes on both dividends and interest payments might be enacted by the Congress next year. The Treasury Department estimates that there is a difference of between $3- to $5-billion between the amount of interest paid to individuals and the amount reported on income tax returns. There is strong sentiment in the Congress for withholding on dividends and interest. It is being recommended by a number of experts testifying before the House Ways and Means Committee."

Tax Liability Notices

With the Remington letter were both a sample of the Treasury Department's notice to taxpayers (Document No. 5219) and a copy of the A.B.A. notice, which is considerably more explicit as to what interest and dividends are taxable. The Treasury form is obtainable in quantity lots without charge. For the A.B.A. notice there is a "cost of printing" charge of $8 per thousand. Although permission was given to banks by the A.B.A. to reproduce its form locally, millions of copies have been requisitioned from the Association's Advertising Department.* A good many banks sent these notices to commercial checking account customers with their January statements; while others are expected to send reminders with their February and March statements. In order to let the Collector of Internal Revenue and other Treasury Department officials know of their cooperation, some of the banks are writing in to report on just what they are doing.

In the case of savings banks, Mr. Remington suggested that copies of the tax notices be handed to savings account holders when they bring their pass books in for credit and that the forms be made available in the bank lobbies during tax return periods.

* 12 E. 36th St., New York 16, N. Y.

Joseph H. Wolfe Will Serve as Director and Robert G. Howard as Registrar of A.B.A.'s Nat'l Trust School

Joseph H. Wolfe, vice-president and trust officer of The Merchants National Bank of Boston, will serve as director of the American Bankers Association's National Trust School at Northwestern University for the 1960 session in August, Charles W. Hamilton, president of the A.B.A. Trust Division, and Richard P. Chapman, chairman of the school's Board of Regents, have announced.

Mr. Hamilton is senior vice-president and trust officer, The National Bank of Commerce, Houston, Tex. Mr. Chapman is president, The Merchants National Bank of Boston.

Mr. Wolfe, who joined the staff of the Merchants National Bank on January 1, had for six years been deputy manager and secretary of the A.B.A. Trust Division. The new school was founded during his final year with the Association.

William C. Bradford, assistant dean of faculties at Northwestern University, will be associate director.

Registrars Howard and Smith

Robert G. Howard, who on January 1 was appointed deputy manager and secretary of the Trust Division, will serve as registrar for the 1960 school session. Mary C. Smith, assistant secretary of the Trust Division, will be assistant registrar.

The National Trust School will offer trust courses on a level intermediate between those of the American Institute of Banking and The Stonier Graduate School of Banking. The school catalog is available from the Trust Division, American Bankers Association, 12 East 36th Street, New York 16, N. Y.

William E. Mohan Succeeds John J. McCann as BANKING'S Advertising Mgr.

William P. Cooley Is Advanced to Assistant Advertising Manager

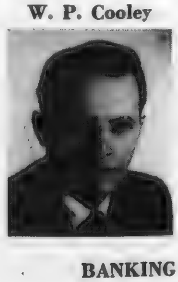
William E. Mohan has been appointed advertising manager of BANKING magazine, Journal of the American Bankers Association, A.B.A. Executive Vice-president and Executive Manager Merle E. Selecman has announced. William P. Cooley has been named assistant advertising manager.

Mr. Mohan, who had been assistant advertising manager of the magazine since 1956, succeeds to the position held by the late John J. McCann. He will also assume the title of director of educational displays. Mr. Mohan joined the staff of BANKING in 1953 after having served for five years as national advertising salesman for *The New York Herald Tribune*. He studied at Columbia.

Mr. Cooley joined the staff in 1956 and has served as eastern representative for the magazine since that time. Earlier in his career he had been with the Standard Oil Company of New Jersey, Industry and Power Publishing Company, Buyer Publications, and immediately before joining BANKING'S staff he had been eastern sales representative for the American Medical Association. He is a graduate of the Columbia University School of Business Administration, class of 1951.

W. E. Mohan

W. P. Cooley



State-of-Dollar Booklet Calls for Control of Inflationary Pressures; Part of World Financial Developments Study

Control of inflationary pressures at home which will tend to keep American exports competitive plus the elimination of dollar discrimination abroad will result in a significant trade improvement for this country, according to the Advisory Committee on Special Activities of the American Bankers Association in a report on "The State of the Dollar." William A. Mitchell, president, The Central Trust Company, Cincinnati, Ohio, is chairman of the committee. The committee has published "The State of the Dollar" in a booklet.

The committee states: "Domestic monetary and fiscal policies have a vital role to play in the solution of what is now our balance-of-payments problem. The discipline of the balance-of-payments led to control of inflation in Western Europe and Japan. Clearly, the United States is not immune to this discipline.

"The basic problem is that our trade surplus, due to a rise in imports and decline in exports, no longer adequately covers the continuing outflow of Government loans and grants and private capital investment. As a result, United States gold stocks have fallen to $19.5-billion, while short-term liabilities to foreigners and international institutions have risen to $19-billion."

Strength of the Dollar

The committee asserts that responsibility for world leadership "also includes maintenance of the strength of the dollar.

"We cannot afford to have it weakened," the committee says and urges increasing attention to the impact of domestic policies upon its international status and "consequently the prestige and strength of our country in the financial markets of the world.

"With a 1959 balance-of-payments deficit over $4-billion, coming after a 1958 payments deficit of $3.4-billion, many Americans were increasingly uneasy; and the debate over the causes of our difficulties and possible cures mounted.

"This serious and persistent payments deficit has, over the past two years, cost the United States $3.3-billion in gold, an amount slightly larger than the gold reserves of Great Britain, which is, after the United States, the largest holder of gold outside the Iron Curtain.

"What are the causes of this situation and what can be done about it? Our focus should be on the balance-of-payments situation, and not on the gold outflow, for the latter is but a consequence of the former.

Gold Stocks Diminish

"Over the first eight months of 1959, our gold stock diminished by $1,014,000,000, but $344,000,000 of this went to the International Monetary Fund to increase the United States gold subscription. There was a $3-billion increase in foreign claims against the United States during the first eight months of 1959; of this, $670,000,000 was taken in gold, and the balance of about $2.4-billion represented an increase in foreign holdings of short-term dollar assets. Clearly, there was no run on our gold supply, since foreigners elected to take four times as much in dollar reserves as they did in gold.

"But short-term dollar claims of foreigners and international institutions now exceed $19-billion, about the amount of our total gold supply. While a large part of these foreign holdings consist of working balances to meet current or prospective payments, it is this type of comparison which worries some observers.

"Experts differ somewhat on the causes of the recent dramatic shift in the position of the dollar and also, to a degree, on what we can and should do about it. But they all agree that it is a situation about which we can no longer afford to be complacent. Some experts stress the trade aspects of our balance-of-payments picture; others stress the aid aspects—the unilateral grants and loans."

Mailed to All A.B.A. Members

"The State of the Dollar," a section of the committee's recently published Study entitled *International Financial Developments*, has been mailed to all A.B.A. member banks. The full study is available to member banks at 75 cents a copy upon request to the Advisory Committee on Special Activities, A.B.A., 12 E. 36th Street, New York 16, N. Y.

"Sandra and I like the same things . . . only she likes to spend 'em and I like to save 'em."

Credit Quotes

SCATTERED through this issue are quotations from some of the excellent talks made at the A.B.A.'s National Credit Conference, held in Chicago on January 21 and 22. Only a small number of such addresses were available at press time.

22 A.B.A. Film Prints Donated to N.Y. School Board by Clearing House

Twenty-two prints of films depicting the services and operations of banks, produced by the Public Relations Council of the American Bankers Association, have been donated to the New York City Board of Education by the New York Clearing House Association, according to Melville M. Parker, chairman of the A.B.A. Council, and executive vice-president, First National Bank of Lebanon, Pa. Included in the gift are the following films: "How Banks Serve"; "A Future to Bank On"; "Using Bank Credit"; "How to Use Your Bank"; and "Future Unlimited."

This is the third donation of A.B.A. films by the Clearing House Association to the New York City school system. In 1950, 20 prints of the film, "Pay to the Order of," and in 1952, 15 prints of "Money Talks" were given for use in the city's schools.

Two New A.I.B. Textbooks—"Bank Management" and "Financing Business Enterprise"—Are Published

The American Institute of Banking, as part of its continuing program of expanding and modernizing its educational program, announced publication last month of two new textbooks which are being put into immediate use. *Bank Management,* devoted to executive development, supersedes the *Bank Administration* textbook. *Financing Business Enterprise* replaces the *Corporation Finance* textbook. Both are required for certain graduate certificates.

Dr. Leroy Lewis, national educational director of the Institute, explains in a preface to *Bank Management* that the "first seven chapters of this text delineate a philosophy of management. . . . In the latter chapters of the book, principles of management and the art of management are applied to specific banking functions that may affect executives operating under management policies."

Harold W. Wallgren, vice-president and cashier of the Philadelphia National Bank, was chairman of the committee that built this text. Frank M. Dana, executive vice-president of the Bank of America N.T. & S.A., San Francisco, is called the "architect" of this volume. He contributed much text material.

"Young bankers," writes Dr. Lewis, "are urged to approach the study of this text most thoughtfully since only if they have a comprehension of the art of management as presently practiced can they perform their functions even more brilliantly in the future. The urgent demands of the future require bankers to attain ever greater skill in the art of management."

Dr. Weldon Welfling, director of the School of Social Science, Simmons College, Boston, is author of *Financing Business Enterprise.* He is the author also of the Institute's text *Money and Banking* and of commercial texts on the same subject.

Many recent developments in the field of business finance are reflected in this text. Throughout the book, stress is placed on the difference between loaning and investing. Stress is placed also on the fact that "investing in a corporation and financing a corporation are different aspects of the same subject."

The Institute feels that this new text will be of great value to loaning officers and credit men. The text material is presented from the viewpoint of the corporate treasurer who must safeguard the financial future of his corporation.

· NEWS · Savings

A.B.A.'s Annual Savings and Mortgage Conference Will Be Held at Hotel Roosevelt in New York on March 7-9

THE close relationship between the volume of individual savings and the capacity of banks to make mortgage loans will be emphasized at the annual Savings and Mortgage Conference sponsored by the Savings and Mortgage Division of the American Bankers Association to be held at the Hotel Roosevelt on March 7, 8, and 9, according to Louis S. Finger, president of the Division and president of the Andover (Mass.) Savings Bank.

The conference this year, which is expected to attract bankers from all sections of the country, will place major emphasis upon pressing problems confronting the management of savings and mortgage departments in banks during 1960. Although the National School Savings Forum previously held in conjunction with this conference will not be held this year, the promotion of savings among young people and among school children, including the school savings banking activity, will be covered in one of the forum sessions.

During the 3-day conference, some of the leading savings bankers of the country, representatives of government, education, and other institutions in the savings and mortgage field will be heard. The program for the three days will be featured by a series of panel discussions, forums, and seminars to provide a wide opportunity for audience participation.

The program for the conference follows:

Morning Session

Monday, March 7, 9:45 A.M.

Conference introduction by President Louis S. Finger.

"Role of Savings in Economic Growth Without Inflation"—a panel moderated by Dr. E. Sherman Adams, deputy manager, American Bankers Association; director, The Stonier Graduate School of Banking, New York, N. Y.

Panel members: Dr. Gabriel Hauge, chairman, Finance Committee, Manufacturers Trust Company, New York, N. Y., and Arthur F. Maxwell, president, First National Bank and president, Biddeford Savings Bank, Biddeford, Maine.

"Is Mortgage Finance a Profitable Activity for Banks?" by D. C. Sutherland, senior vice-president, Bank of America, San Francisco.

"Case for Savings as a Banking Function," by Charles A. Agemian, controller general, The Chase Manhattan Bank, New York, N. Y.

Luncheon Session

12:30 P.M.

"The Savings Interest Problem for Banks," by G. Russell Clark, Superintendent of Banks, State of New York, New York, N. Y.


Louis S. Finger


G. Russell Clark


Gabriel Hauge


Jules I. Bogen

Forum A

Monday, March 7, 2:30 P.M.

"What Should the Role of the Federal Government Be in the Field of Housing and Mortgage Finance?"—moderated by Louis B. Lundborg, executive vice-president, Bank of America N.T. & S.A., San Francisco.

Panel members: The Honorable John Sparkman, United States Senator from the State of Alabama; member, Senate Banking and Currency Committee, Washington, D. C.; Norman P. Mason, Administrator, Housing and Home Finance Agency, Washington, D. C.; Dr. Paul W. McCracken, professor of Business Conditions, School of Business Administration, University of Michigan, Ann Arbor; and V. R. Steffensen, executive vice-president, First Security Bank of Idaho N.A., Boise.

Forum B

2:30 P.M.

"Selling and Serving 'Saving at Banks' to Young People"—Discussion leaders: George H. Rast, vice-president and cashier, The First National Bank of Leesburg, Fla., and Jean M. Turano, assistant to the president, The Trenton Saving Fund Society, Trenton, New Jersey.

This forum is intended for bankers particularly interested in ideas, services, media, and programs, including school savings, to encourage, stimulate, and sell young people—both inside and outside schools—on the values of thrift.

Seminar 1

Monday, March 7, 2:30 P.M.

Questions and answers for and from savings operating men—Leonard P. Chamberlain, discussion leader; vice-president, The Provident Institution for Savings, Boston, Mass.

Morning Session

Tuesday, March 8, 9:30 A.M.

"Preparation before Automation," by Dr. F. Byers Miller, executive director, National Association of Bank Auditors and Comptrollers, Chicago.

"Cooperative Automation for Groups of Banks or Branches (Practical Approaches to Centralized Automation for Savings and Mortgage Operations)"—Leonard P. Chamberlain, moderator.

Panel members: R. E. Anderson, president, SPAN, Hartford, Conn., and Raymond C. Kolb, vice-president, Mellon National Bank and Trust Company, Pittsburgh, Pa.

"A Dynamic Approach to the Urban Renewal Program," by Harry Held, senior vice-president, The Bowery Savings Bank, New York.

Luncheon Session

Tuesday, March 8, 12:30 P.M.

"Credit Union Competition and Serving People Where They Work," by Everett D. Reese, chairman of the board, City National Bank and Trust Company, Columbus, Ohio.

Forum C

2:30 P.M.

"Incentives for Savings, Including Premiums . . . Yes or No?"—moderated by Granville S. Morgan, vice-president, The Philadelphia Saving Fund Society, Philadelphia, Pa.

Panel members: J. Lewell Lafferty, vice-president, Republic National Bank of Dallas; George M. Wasem, vice-president, Commercial National Bank, Peoria, Ill.; Robert Wekesser, vice-president, National Bank of Commerce, Lincoln, Nebr.

Forum D

2:30 P.M.

"More Effective Investment of Savings Funds"—Discussion leaders:

G. A. Freeman


Jean M. Turano


Harry Held


John Sparkman


· NEWS ·

L. Sumner Pruyne, vice-president, The First National Bank of Boston, and Leo F. Stanley, executive vice-president, Dry Dock Savings Bank, New York.

Forum E

2:30 P.M.

"Are the Present Laws and Regulations Pertaining to Mortgage Finance Realistic?"—Moderator to be announced.

Panel members: L. A. Jennings, deputy comptroller, Office of the Comptroller of the Currency, Washington, D. C.; Joseph R. Jones, vice-president, Security First National Bank, Los Angeles; Walter S. Rosenberry, Jr., deputy administrator, Housing and Home Finance Agency, Washington, D. C.; and Harry A. Yoars, vice-president, The First National City Bank of New York, New York.

Closing Session

Wednesday, March 9, 9:30 A.M.

"The Money Market and the Mortgage Outlook," by Dr. James J. O'Leary, director of economic research, Life Insurance Association of America, New York.

"Clarifying the Roles and Goals of Financial Institutions in the Savings Field" — moderated by Gaylord A. Freeman, Jr., vice-president, Savings and Mortgage Division, American Bankers Association; president, The First National Bank of Chicago, Chicago, Ill.

Panel members: Dr. Grover W. Ensley, executive vice-president, National Association of Mutual Savings Banks, New York; J. Deane Gannon, director, Bureau of Federal Credit Unions, Washington, D. C.; Eugene C. Mortlock, president, First Federal Savings and Loan Association, New York; and L. M. Schwartz, president, Citizens State Bank, Paola, Kans.

"The Outlook for Savings in Banks," by Dr. Jules I. Bogen, professor of finance, New York University, Graduate School of Business Administration, New York.

Immediately following Dr. Bogen's presentation, he will answer questions from a meet-the-banking-press panel comprising: William R. Kuhns, moderator, editor, BANKING, American Bankers Association, New York; Clinton Axford, editor, *American Banker,* New York; Harold E. Group, editor and publisher, *Savings Bank Journal,* New York; Harris Vennema, editor and publisher, *Eastern Banker,* Philadelphia.

"Snookie, you can't mean it . . . you've entered my beauty parlor expenses as *necessities!*"

John W. Remington, president, American Bankers Association and of Lincoln Rochester Trust Company, Rochester, N. Y., *left,* receives appointment as Goodwill Ambassador for the Savings Bond Program from Under Secretary of the Treasury Julian B. Baird. Under Secretary Baird made the presentation on behalf of Secretary Anderson, who was abroad at the time. In accepting the Goodwill Ambassadorial appointment, Mr. Remington again pledged the A.B.A.'s vigorous support to the bond program as an essential part of good Federal debt management

Bankers Trust Offers Automatic Savings

A NEW method of saving—through systematic deductions from a checking account—is now being offered to customers of the Bankers Trust Company of New York.

Briefly, the plan operates this way. Customers of Bankers Trust Company, with both savings and checking accounts, may specify one of two dates and any amount over $10 to be transferred from the checking account into the savings account. Transfers will be made monthly and there will be no charge to the customer.

The system is called the Bankers Trust Company Automatic Savings Plan.

Deposit Gains at Mutual Savings Lower in 1959

DURING 1959 the nation's mutual savings banks had a net inflow of savings of close to $1.2-billion and added a total of nearly $1.9-billion to their mortgage holdings, it was reported at the year-end by the National Association of Mutual Savings Banks.

The association pointed out that though 1959 deposit gains were smaller than for the record year of 1958 and less than desirable in an economy dependent on savings for sound growth, savings banks had been able to finance nearly as large a volume of home building and purchases as they did in 1958.

Referring to the prospects for deposit gains in 1960, Dr. Grover W. Ensley, executive vice-president of the association, said that a slight reduction in withdrawals and a continuation of the current large flow of deposits could mean larger net deposit gains in 1960 than in 1959. He pointed to the expected rise in average personal incomes in 1960, some indication of growing caution on the part of individuals to enter the stock market, and the announcement of increases in interest rates as positive factors pointing to higher net deposit gains in 1960.

The association reported that, at year end, the total deposit liability of the 518 mutual savings banks in the United States and the Virgin Islands will approach $35-billion and assets $39-billion. Their mortgage holdings will be close to $25-billion, representing more than 63% of total assets.

Housing and Mortgages

·NEWS·

A.B.A. Will Hold Regional Mortgage Workshop in San Francisco on February 22-24

LEADERS in the field of mortgage lending in western states will be on the program for the second regional Mortgage Workshop Meeting held under the auspices of the American Bankers Association at the Fairmont Hotel, San Francisco, February 22-24. This will be a working meeting, with each session planned to provide for the widest possible audience participation and a discussion of current problems in mortgage lending, according to Dr. Kurt F. Flexner, director of Mortgage Finance, A.B.A., who will have overall supervision of the meeting.

Registration will open Monday afternoon, February 22, at 3 P.M., with a reception at 5:30 P.M. for the registrants.

The conference territory will include the states of Arizona, California, Nevada, New Mexico, Oregon, Utah, Washington; and general chairman will be D. C. Sutherland, senior vice-president, Bank of America N.T. & S.A., San Francisco.

The program for the workshop follows:

Monday, February 22

3 P.M.—Registration

5:30—Reception

Morning Session

Tuesday, February 23, 9:30 A.M.

Presiding, General Chairman D. C. Sutherland.

Mortgage Credit by Institutions

(In millions of dollars)

	Sept. 30, 1958	*Sept. 30, 1959*	*% Change*
Commercial banks	$24,700	$27,630	11.9
Mutual savings banks	22,746	24,610	8.2
Life insurance cos.	36,472	38,493	5.5
Savings and loan cos.	43,997	51,500	17.1

"The Future of Mortgage Finance for Commercial Banks," by Dr. Flexner.

"Advantages of Mortgage Lending for Commercial Banks," by V. R. Steffensen, executive vice-president, First Security Bank of Idaho N.A., Boise, Idaho.

"The Money Market and the Mortgage Outlook," by Dr. Paul F. Wendt, chairman, Real Estate Research Program; professor of finance, Graduate School of Business Administration, University of California, Berkeley.

Afternoon Session

2-4 P.M.

"The Flow of Mortgage Funds—How to Use Them to Best Advantage for Your Bank"—Mr. Sutherland, moderator. Panel members, topics:

"The Residential Mortgage as a Long Term Investment," by Harry G. Baldwin, vice-president, Washington Mutual Savings Bank, Seattle.

"FHA, VA, and Conventional Mortgages," by Ralph E. Bruneau, vice-president, Valley National Bank, Phoenix.

"Mortgage Origination and Servicing," by Willis R. Bryant, Bryant-Johnson Mortgage Company, San Francisco.

"Interim Financing and Construction Lending," by Joseph R. Jones, member, Real Estate Mortgage Committee, American Bankers Association; vice-president, Security-First National Bank, Los Angeles.

Morning Session — Seminars

Wednesday, February 24

"How to Plan and Build Up a Balanced Mortgage Portfolio."

"How to Manage Your Mortgage Operations—The Income and Cost Side of Mortgages."

Afternoon Session—Seminar

2-3:30 P.M.

"Construction Lending and Interim Mortgage Financing."

(CONTINUED ON PAGE 154)

D. C. Sutherland

V. R. Steffensen

Joseph R. Jones

Paul F. Wendt

· NEWS ·

Instalment Credit

Predictions

So much of the economy's future is based on instalment credit.

Discretionary income is expected to increase tremendously—an American Finance Conference vice-president predicts a jump from slightly over $100-billion today to $200-billion by 1970.

Proportionately, **predictions for instalment credit volume during the next decade range from $60-billion to $100-billion, compared to about $39-billion now, putting an awesome burden upon the credit-granting banker.**

Watch ever more closely

So, here's a warning from R. C. Kemper, board chairman of City National Bank & Trust Company of Kansas City—now, more than ever, watch your customer's *ability* to pay, not his willingness. Although most instalment credit represents an investment in durable consumer goods and homes, with the extension of consumer lines of credit, more soft goods and services are being acquired by this means than ever before. Now, more than ever, **don't** let your customer overextend.

Also—as Mr. Kemper admonished the A.B.A.'s Credit Conference in Chicago last month—remember that **the product being financed is a much better guarantee than dealer endorsement or reserves—a dealer with high repossessions can endorse himself right out of business.** A good product that doesn't need too much servicing, and gives leisure, comfort, or enjoyment — a proper down payment, reasonable terms, and a borrower with a good credit record on this type of paper—these are your best endorsement.

◈ ◈ ◈

Prepare for a big auto year

Commercial banking is on the threshold of one of the biggest years in instalment credit ever, with automobile financing scheduled to play the major role. Auto paper has increased 300% over the past 10 years—from about $1.75-billion to $7-billion as of July 1959. Prediction by Louis J. Asterita, deputy manager of the A.B.A.'s Instalment Credit Commission: 30% to 40% more new car sales in 1960 than there were in 1959. **Be prepared to service the increased volume of paper.**

◈ ◈ ◈

State association launches credit school

Rapid growth, new legal framework, and radically new services in the consumer credit field have inspired one state association to provide special training for its members. **The New York State Bankers Association has launched a Bankers Institute for Credit Management, the first of its kind on a state-association level that we've heard of.**

Study areas: (1) Federal and state laws and regulations; (2) cost analysis; (3) services; (4) public relations and business development; (5) economics; (6) management policies; (7) operations; (8) collection; (9) audit control; (10) insurance.

This makes a total of 11 formal education programs conducted for the banking industry by this association through its School of Banking. Eighteen weeks of sessions are scheduled by the school for 1960.

◈ ◈ ◈

A.B.A. survey reveals . . .

From a banker opinion survey compiled by the A.B.A. Credit Policy Commission, dated December:

• **Slight upward pressure** on interest rates for some categories of loans. The legal maximum is being charged in some states—these must remain static pending legislative changes.

• **Credit reasons continue to be the number one reason for turndowns,** followed by tight money and inflationary effects on the economy of the particular area.

• **Personal loan increases predicted** in some areas — mostly by banks offering "check-credit."

• NEWS •

Biggest year ever ahead;
biggest job ever goes with it.

Delinquencies up

Latest delinquency figures: percentage of total number of bank instalment loans outstanding that are delinquent reported at 1.82%, close to the high for the past five years.

◈ ◈ ◈

March 21-23: A.B.A. Instalment Credit Conference

The shape of economic growth in the United States during 1960 may depend on the credit policies and operating procedures used to keep bank instalment credit on a sound basis, says Edward J. Frey, chairman of the A.B.A. Instalment Credit Commission and president of the Union Bank and Trust Company, Grand Rapids, Mich.

Here's a partial program for the A.B.A. National Instalment Credit Conference, as announced by Mr. Frey, during which representatives of banks, industry, and government will look at and talk over instalment lending in the months ahead. The conference is set for March 21-23 at The Conrad Hilton in Chicago.

Program Partly Set

The tentative program includes:

Monday morning, March 21: introductory remarks by Chairman Frey; addresses by **Carl A. Bimson, vice-president of the A.B.A., and president, Valley National Bank, Phoenix, Ariz.**

Tuesday morning: addresses by **Sam M. Fleming, president, Third National Bank in Nashville, Tenn., who was 1956-57 president of the National Bank Division of the A.B.A.; Casimir A. Sienkiewicz, president, Central-Penn National Bank of Philadelphia, and chairman, A.B.A. Committee on Economic Growth Without Inflation;** and Peter E. Schruth, vice-president and advertising director, *The Saturday Evening Post,* New York City.

Wednesday morning: addresses by L. W. Lundell, board chairman, Universal C.I.T. Credit Corporation, New York City; and Dr. Paul W. McCracken, professor of business conditions, School of Business Administration, University of Michigan, Ann Arbor.

Bull Sessions Planned

Monday and Tuesday afternoons again will be devoted to "bull sessions" in which registered bankers will be able to discuss specific problems and developments in their instalment lending activities.

Revolving check-credit, formally introduced to the conference last year, should be a "hot topic" again. The past year's experiences in this new area should make interesting discussion as representatives of banks of different sizes and localities get together. A better background for policy decisions in this area should shape up as a result.

Additional speakers and special features will be announced in the final program for the conference.

Some Banker-Speakers Scheduled

Edward J. Frey

Sam M. Fleming

C. A. Sienkiewicz

Carl A. Bimson

CALENDAR, 1960

1960 FEBRUARY 1960

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14	15	16	17	18	19	20
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28	29					

MARCH

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American Bankers Association

Feb. 8-10 Mid-Winter Trust Conference, Waldorf-Astoria Hotel, New York

Feb. 22-24 Second Regional Mortgage Workshop Meeting, Fairmont Hotel, San Francisco

Mar. 7- 9 57th Annual Savings and Mortgage Conference, Hotel Roosevelt, New York

Mar. 10-11 Agricultural Commission and Subcommittee on Agricultural Credit, Hotel Ponce de Leon, St. Augustine, Florida

Mar. 21-23 Instalment Credit Conference, Conrad Hilton Hotel, Chicago

May 12-13 Southern Trust Conference, Colonial Inn-Desert Ranch, St. Petersburg, Fla.

May 30-June 3 American Institute of Banking, Statler Hilton Hotel, Boston

June 13-24 The Stonier Graduate School of Banking, Rutgers—The State University, New Brunswick, N. J.

Aug. 8-26 The National Trust School, Northwestern University, Evanston, Ill.

Sept. 18-21 86th Annual Convention, New York City

State Associations

Mar. 24-26 Florida, Robert Meyer Hotel, Jacksonville

Apr. 22-29 Georgia, Cruise abroad S. S. Bergensfjord

Apr. 24-26 Louisiana, Hotel Roosevelt, New Orleans

Apr. 30-May 7 Alabama, Cruise abroad S. S. Bergensfjord

May 1- 6 South Carolina, Cruise to Nassau

May 5- 6 Oklahoma, Skirvin Hotel, Oklahoma City

May 6- 7 North Dakota, Dacotah Hotel, Grand Forks

May 8-10 Missouri, Sheraton-Jefferson Hotel, St. Louis

May 8-10 North Carolina, The Carolina Hotel, Pinehurst

May 11-12 Ohio, Sheraton-Gibson Hotel, Cincinnati

May 12 Delaware, Du Pont Hotel, Wilmington

May 12-14 Kansas, Topeka

May 15-17 Texas, Texas Hotel, Fort Worth

May 15-18 Pennsylvania, Bellevue-Stratford Hotel, Philadelphia

May 16-18 Mississippi, Buena Vista Hotel, Biloxi

May 18-19 Indiana, French Lick-Sheraton Hotel, French Lick

May 18-20 New Jersey Chalfonte-Haddon Hall, Atlantic City

May 19-20 Massachusetts, New Ocean House, Swampscott

May 19-21 Utah, Royal Nevada Hotel, Las Vegas, Nev.

May 20-21 New Mexico, Western Skies Hotel, Albuquerque

May 20-24 Maryland, Shoreham Hotel, Washington, D. C.

May 22-24 California, Ambassador Hotel, Los Angeles

May 23-24 Illinois, Palmer House, Chicago

May 23-25 Arkansas, Arlington Hotel, Hot Springs

June 3- 4 Connecticut, Equinox House, Manchester, Vt.

June 7- 8 Minnesota, Leamington Hotel, Minneapolis

June 8-12 Dist. of C., The Homestead, Hot Springs, Va.

June 12-14 Idaho, The Lodge, Sun Valley

June 15-17 New York, Lake Placid Club, Lake Placid

June 16-18 Michigan, Grand Hotel, Mackinac Island

June 16-18 Montana, Canyon Village Hotel, Yellowstone National Park

June 16-18 Virginia, The Homestead, Hot Springs

June 16-18 Wyoming, Jackson Lake Lodge, Moran

June 17-18 *New Hampshire, Wentworth-by-the-Sea, Portsmouth

June 17-18 *New Hampshire Mutual Savings, Wentworth-by-the-Sea, Portsmouth

June 19-21 Washington, Davenport Hotel, Spokane

June 20-22 Wisconsin, Schroeder Hotel, Milwaukee

June 23-25 Colorado, Hilton Hotel, Denver

June 23-25 Vermont, Equinox House, Manchester

June 24-25 New Jersey Mutual Savings, Monmouth Hotel, Spring Lake

July 14-17 West Virginia, The Greenbrier, White Sulphur Springs

Sept. 8-10 Maine Savings Banks, Poland Spring House, Poland Spring

Sept. 15-17 Massachusetts Savings Banks, Poland Spring House, Poland Spring, Me.

Oct. 11-12 Nebraska, Cornhusker Hotel, Lincoln

Oct. 14-15 New Hampshire Fall Meeting, Mountain View House, Whitefield

Oct. 17-18 Connecticut Mutual Savings, Mountain View House, Whitefield, N. H.

Oct. 23-26 Iowa, Fort Des Moines Hotel, Des Moines

Nov. 10-12 Arizona, Biltmore Hotel, Phoenix

*Joint Meeting

Other Organizations

Apr. 4- 6 NABAC Eastern Regional, Bellevue-Stratford Hotel, Philadelphia

Apr. 24-27 NABAC Northern Regional, Schroeder Hotel, Milwaukee

May 16-18 NABAC Southern Regional, Chase-Park Plaza Hotel, St. Louis

May 22-26 Independent Bankers Association, Hilton Hotel, Denver, Colo.

May 29-31 Association of Registered Bank Holding Companies 2nd Annual Meeting, The Greenbrier, White Sulphur Springs, W. Va.

June 6- 8 NABAC Western Regional, Hotel Utah, Salt Lake City

Oct. 10-12 NABAC 36th Annual Convention, Hotel Statler, Los Angeles

Oct. 10-13 National Association of Bank Women, Annual Convention, Huntington-Sheraton Hotel, Pasadena, Calif.

All banking associations are invited to send in dates of their forthcoming meetings for this calendar.

AUGUST

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1961 JANUARY 1961

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Leading Trust Authorities to Speak at A.B.A. Mid-Winter Trust Conference

THE 41st Mid-Winter Trust Conference of the American Bankers Association will be held at The Waldorf-Astoria in New York City on February 8-10. Charles W. Hamilton, president of the Association's Trust Division and senior vice-president and trust officer of The National Bank of Commerce, Houston, Tex., announces that the following speakers will be heard during the two and one-half day conference:

Monday, February 8, 9:30 A.M.

Invocation by Gilbert T. Stephenson, former president, Trust Division, A.B.A., Pendleton, N. C.

Address by Mr. Hamilton; "The National Trust School," by Richard P. Chapman, chairman, Board of Regents, The National Trust School, and president, The Merchants National Bank, Boston; "Trusts and the Conflict of Laws," by Austin W. Scott, professor of law, Harvard Law School, Cambridge, Mass.; and "Investment Environment in the 1960s," by Dr. Marcus Nadler, professor of finance, New York University, New York. Joseph H. Wolfe, vice-president and trust officer, The Merchants National Bank, Boston, will preside.

Investment Session

Monday, February 8, 2 P.M.

"Prudence Will Be Prosecuted," by Charles W. Buek, first vice-president, United States Trust Company, New York; "Why Bonds in a Trust Portfolio?," by Arthur L. Coburn, Jr., vice-president, Old Colony Trust Company, Boston, Mass.; "Bank and Finance Company Stock," by F. W. Elliott Farr, vice-president, Girard Trust Corn Exchange Bank, Philadelphia; "Chemicals," by Jeremy C. Jenks, Cyrus L. Lawrence & Sons, New York; "Motor Industry," by Malcolm D. Brown, R. W. Pressprich & Co., New York; and "Public Utilities," by Charles A. O'Neil, vice-president, Duff and Phelps, Inc., Chicago.

At the conclusion of these addresses, speakers Buek, Coburn, Farr, Jenks, Brown, and O'Neil will form a panel to answer questions. The panel leader will be Philip B. Simonds, Jr., chairman, Trust Division's Committee on Trust Investments, who is vice-president, Rhode Island Hospital Trust Company, Providence.

Robert R. Duncan, vice-president, Trust Division, and chairman, Harvard Trust Company, Cambridge, Mass., will preside at this session.

Tuesday, February 9, 9:15 A.M.

Address by John W. Remington, president, American Bankers Association and president, Lincoln Rochester Trust Company, Rochester, N. Y.; "Needed: A Reconsideration of Common Trust Fund Regulations," by Charles G. Young, Jr., senior vice-president and senior trust officer, City National Bank & Trust Company, Kansas City; and "A Coordinated Trust Plan," by A. Key Foster, Attorney at Law, Birmingham, Ala.; and speaker to be announced. President Hamilton will preside at this session.

Pension and Profit-Sharing Trusts

Tuesday, February 9, 2 P.M.

Address by Dr. Roger F. Murray, S. Sloan Colt professor of banking and finance, Graduate School of Business, Columbia University, New York; "Funding Pension Plans Under Today's Economy," by Frank L. Griffin, Jr., vice-president and actuary, The Wyatt Company, Chicago. A panel on "Keogh Funds" with Cecil P. Bronston, chairman, Trust Division's Committee on Employees Trusts, and vice-president, Continental Illinois National Bank and Trust Company, Chicago, as leader. Panel members: Charles M. Bliss, executive vice-president, The Bank of New York, New York; Richmond M. Corbett, trust officer, Chicago Title and Trust Company, Chicago; and C. R. Miller, vice-president and trust officer, City Bank and Trust Company, in Jackson, Michigan.

Carlysle A. Bethel, vice-chairman and senior trust officer, Wachovia Bank and Trust Company, Winston-Salem, N. C., and immediate past president, Trust Division, A.B.A., will preside.

Smaller Trust Departments
(Under $5-million)

Tuesday, February 9, 2 P. M.

"Requirements for Operating a Good Trust Department," by William Matthews, assistant to director, Federal Deposit Insurance Corporation, Washington, D. C.; and "Overcoming Objections," by John M. Grotheer, assistant vice-president, The Chase Manhattan Bank, New York. Panel on "Problems of Smaller Trust Departments," to be composed of J. H. Bowen, vice-president and trust officer, Union National Bank, Little Rock, Ark.; W. L. Johnson, vice-president and trust officer, Security-Mutual Bank and Trust Co., St. Louis, Mo.; D. W. Jurgemeyer, vice-president and trust officer, Irwin Union Bank and Trust Co., Columbus, Ind.; William B. Ogden, III, vice-president and trust officer, Merchants National Bank and Trust Company, Syracuse, N. Y.; and Henry Toland, vice-president and trust officer, Exchange National Bank of Tampa, Fla. Leader to be announced. Presiding at this session will be H. T. Uehling, trust officer, The First National Bank & Trust Co., Fargo, N. D.

Medium Trust Departments
(Over $5-million)

Tuesday, February 9, 2 P.M.

"Recruiting and Training Trust Personnel," by James M. Slay, vice-president, Federal Reserve Bank of Richmond, Va. Panel on "Medium Trust Departments" composed of R. F. Dewey, assistant vice-president and trust officer, First National Bank of Arizona, Phoenix; James F. English, Jr., vice-president, The

(CONTINUED ON PAGE 108)

Mid-Winter Trust

(CONTINUED FROM PAGE 106)

Connecticut Bank and Trust Company, Hartford; Stetson B. Harman, vice-president and trust officer, The First National Bank of Oregon, Portland; Howard J. Johnson, vice-president and trust officer, American National Bank and Trust Company, Chicago; and Joseph L. Whyte, vice-president and trust officer, American Security and Trust Company, Washington, D. C. Leader to be announced.

Opening and Operating a Trust Department

Tuesday, February 9, 2 P.M.

"Authority Required to Open a Trust Department," by Joseph M. Naughton, president, Second National Bank, Cumberland, Md.; "Administrative and Personnel Needs," by John D. Hartman, vice-president and trust officer, Poudre Valley National Bank of Fort Collins, Colo.; "Systems and Machines Needed," by Noel L. Mills, vice-president and senior trust officer, Deposit Guaranty Bank and Trust Company, Jackson, Miss.; "Trust Possibilities in a Country Bank," by John H. Crocker, chairman and president, Citizens National Bank, Decatur, Ill.; and "Relations with Other Groups," by Thoburn Mills, vice-president and trust officer, The National City Bank of Cleveland, Ohio. Presiding at this session will be Waldemar F. Pralle, vice-president and trust officer, City National Bank and Trust Company, Oklahoma City, Okla.

Estate Planning Panel

Tuesday, February 9, 2 P.M.

Leader, John M. Zuber, vice-president and trust officer, Republic National Bank of Dallas, Tex. Panel members: Robert M. Lovell, senior vice-president, The Hanover Bank, New York; Charles B. McCaffrey, professor of insurance, Wharton School, University of Pennsylvania, Philadelphia; Joseph A. McClain, Jr., Mabry, Reaves, Carlton, Fields & Ward, Tampa, Fla.; and Eugene J. Patton, Peat, Marwick, Mitchell & Co., New York, N. Y.

Wednesday, February 10, 9:15 A.M.

Address by John D. Randall, president, American Bar Association, Cedar Rapids, Iowa; "Can Small Estates and Trusts Be Profitable," by Morton Smith, vice-president, Girard Trust Corn Exchange Bank, Philadelphia; and address by A. James Casner, professor of law, Harvard Law School, Cambridge, Mass. Thomas H. Beacom, chairman, Executive Committee, Trust Division, A.B.A., and senior vice-president, The First National Bank of Chicago, will preside.

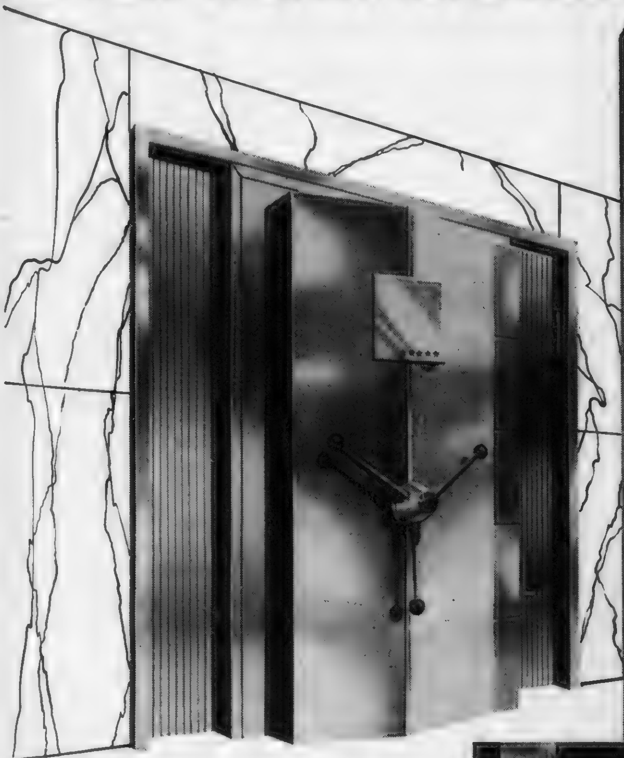
12:45 P.M.

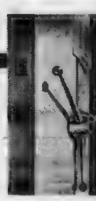
Delegates will again be the guests, at luncheon, of The New York Clearing House Association. Gardiner Symonds, chairman and president, Tennessee Gas Transmission Company, Houston, will be guest speaker.

When you think of all the lonely people without relatives or neighbors, you certainly envy them.

There are things more urgent than money—for instance, your bills.

The sour-grapevine is the fastest route for gossip.





Better Methods and Systems

(CONTINUED FROM PAGE 47)

pany," was prepared by PBA's special Committee on Emergency Preparedness. The committee says it realizes that the program outlined is a minimum one. "Every bank, large or small, must adjust such a program to its own individual needs. It is our desire to impress upon all banks the urgency of having such an emergency program."

The booklet is available at 50 cents a copy from PBA, Box 152, Harrisburg, Pa.

Accountants' Institute Film Shows CPA at Work

The American Institute of Certified Public Accountants is sponsor of "CPA," a 28-minute documentary-type film in black and white showing a day in the life of a certified public accountant.

The film dramatizes the personal relationships of the CPA during a single day. Its purpose is to inform young people about accounting careers, but its potential use is wider, the Institute says. The cast is composed of professional actors.

An honest fisherman is never interesting, and an interesting fisherman is never honest.

Before Christmas Santa Claus carries the bag but after Christmas Dad is left holding it.

They say money doesn't bring happiness, but it's nice to be able to find out for yourself.

Remember that it is impossible for one fool to get into an argument.

A bill collector is a person who doesn't like to be invited to call again.

A rich uncle is liked by everyone because of his purseonality.

The best conversationalist is the person who lets others do the talking.

Most people believe everything they think and most of what they hear.

When the first USS *Independence* was commissioned in 1776, you probably could have put all the steel aboard her into one sea chest. But when the fifth *Independence* joined the U.S. fleet this year, she carried the widest variety of specialty steels ever assembled. *57,000 of her 60,000 tons are steel.*

The *Independence* is big. She carries a crew of 3,500 and her quarter mile of runways could park two luxury liners side by side. Turn her on end and she'd reach up to the 80th floor of the Empire State Building. Total working area for flight operations is over six acres.

The *Independence* is built of steel, much of it supplied by United States Steel. For the greatest possible strength and toughness U.S. Steel furnished two types of specially formulated and treated armor plate. Steel cables, strong enough to stop a landing jet bomber, were furnished by the American Steel & Wire Division of United States Steel. Her four 66½-foot, 50-ton propeller shafts were forged at the USS Homestead Works. And so it goes. From flight deck armor to the stainless steel used in her hospital, galley and crew's quarters, USS Steels play an important part in the performance of one of the Navy's finest ships.

It took three years to build *Independence*. It took 50 years of research and development to perfect the specialty steels of which she is made. *USS is a registered trademark*

57,000 tons of steel go

Something new in tie-downs. Instead of welded tie-downs, *Independence* has dimples placed at specified points in flight and hangar deck armor. U. S. Steel developed special dies for use in a 12,000-ton press, worked with the plate while it was cold. Danger of welded-in units breaking loose from overhead blast is now eliminated.

Hammocks are a thing of the past. Pullman-type bunks with individual reading lights make crew's quarters much more comfortable.

Lo
In
ha

go to sea with the USS "Independence"

Lots of room, lots of steel here. Hangar deck aboard *Independence* can store 100 jets, is as big as two and a half football fields.

United States Steel

Stock Insurance Companies Meet the Competition

PUBLICLY held fire and casualty insurance companies have shown improved financial condition. The improvement occurred particularly between 1957 and 1959.

There are two major reasons: across-the-board premium rate hikes and better profits on securities. Underwriting losses are still in evidence, but they have been reduced. It is an anomaly that the stock companies do not make any money in the business for which they were organized originally and that they have to depend, during certain periods, on their investment operations to make overhead and dividends.

Travelers Insurance heads the list of these stock companies with annual premium writings in excess of $800,000,000. The current yield of the common stock is about 1.6%. The highest yields of the 19 leading companies include 5% for American Insurance and 5.6% for Boston Insurance.

The underwriting loss and profit pattern usually runs in cycles. In periods when there are large underwriting profits, the regulatory authorities tend to reduce premium rates for the benefit of the public. This then reaches a point where the companies lose money on their insurance operations, whereupon they are allowed again to raise premium rates. This cycle has now begun.

Thus, the investor may hope that, barring large catastrophes, there will be underwriting profits in 1960 and 1961. The worst underwriting losses are still in auto lines, and higher premiums can hardly eliminate them, unless there could be fewer accidents and less generous court awards.

One obstacle being faced by the stock companies is mounting competition from such underwriters as All-State (owned by Sears Roebuck), State Farm Mutual, and Nationwide Mutual. While these were formerly underwriters of automobile risks only, they have branched out into the property and casualty fields. All-State, for example, is offering a home-owners' package which includes fire, theft, and personal liability insurance.

(CONTINUED ON PAGE 116)

"I need a change, sir. I just turned myself down for a loan!"

(CONTINUED FROM PAGE 114)

The stock companies have met this competition in several ways. Some of them have been selling health and accident insurance by mail, some have reduced the commissions to their agents, and others with a large volume of paper work have installed electronic computers to save on office expenses.

Admittedly, the most important item which the insured wants today is a package deal which combines fire, theft, liability, and even life insurance. The emergence of life group policies, which are now the rule rather than the exception in any fair-sized office or factory, was perhaps responsible for the popular demand of package policies.

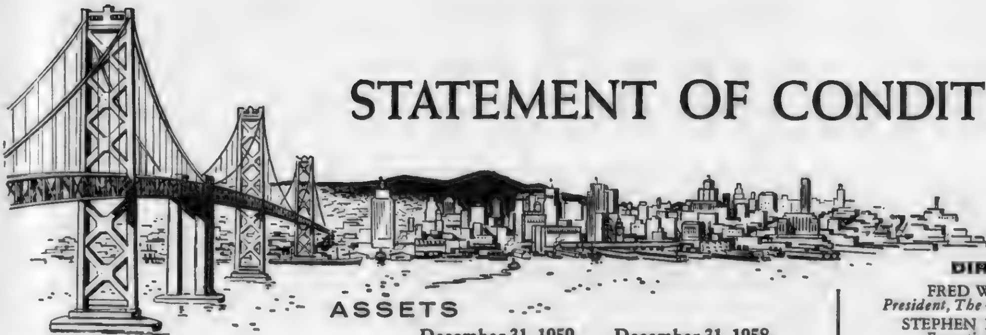
In this category, premiums are usually broken down into modest monthly payments following the pattern of instalment sales. Thus, customers quite frequently buy more insurance than they would otherwise. This achieves a greater coverage for the customer, and the underwriter has only to cope with one bookkeeping problem instead of multiple ones.

The ultimate in package policies means life insurance as well, which many property stock companies could not provide. This problem is being solved through acquisition or formation of new companies. Insurance Company of North America is a typical pioneering example. Its subsidiary, Life Insurance Company of North America, started operations in 1957. In its first year of operation it wrote nearly $120,000,000 worth of policies. The immediate future of the industry for investment purposes, thus, is good—selectively speaking.

H.E.D.

"And I'm willing to start at the bottom; vice-president or something like that!"

STATEMENT OF CONDITION



ASSETS

	December 31, 1959	December 31, 1958
CASH AND SECURITIES		
Cash and Due from Banks	$ 317,743,552.57	$ 282,891,710.09
United States Government Securities	397,080,941.70	448,192,558.25
State and Municipal Securities	85,922,853.95	89,489,758.68
Other Bonds and Securities	4,887,734.05	8,701,826.36
TOTAL	$ 805,635,082.27	$ 829,275,853.38
LOANS		
Commercial Loans	$ 418,528,685.10	$ 359,986,029.03
Real Estate Loans	380,483,002.57	313,394,231.25
Automobile Installment Loans	102,529,303.60	85,676,075.48
Personal and Improvement Loans	86,300,196.60	69,390,508.22
	$ 987,841,187.87	$ 828,446,843.98
Less: Reserve for Possible Loan Losses	16,243,166.51	13,543,812.63
TOTAL	$ 971,598,021.36	$ 814,903,031.35
OTHER ASSETS		
Accrued Income Receivable	$ 7,215,042.44	$ 7,553,224.81
Stock in Federal Reserve Bank	3,184,000.00	3,025,000.00
Bank Premises and Equipment	20,630,126.22	19,027,825.43
Other Real Estate Owned	51,786.69	24,915.38
Customers' Liability under Letters of Credit and Acceptances	21,833,904.03	15,841,444.18
Other Assets	1,363,951.10	2,263,892.81
TOTAL	$ 54,278,810.48	$ 47,736,302.61
TOTAL ASSETS	**$1,831,511,914.11**	**$1,691,915,187.34**

LIABILITIES

	December 31, 1959	December 31, 1958
DEPOSITS		
Demand Deposits	$ 836,879,882.55	$ 756,334,459.96
Time Deposits	663,983,520.88	617,139,461.16
United States Government Deposits	39,376,082.97	29,656,384.27
Other Public Deposits	116,440,178.56	123,858,864.20
TOTAL	$1,656,679,664.96	$1,526,989,169.59
OTHER LIABILITIES		
Dividends Payable	$ 1,591,987.50	$ 1,512,487.50
Income Collected in Advance	16,286,871.08	13,194,752.59
Letters of Credit and Acceptances	22,160,253.27	15,841,444.18
Accrued Interest, Taxes, Other Expense	9,534,637.72	16,543,937.95
TOTAL	$ 49,573,749.57	$ 47,092,622.22
CAPITAL ACCOUNTS		
Capital Stock	$ 53,066,250.00	$ 50,416,250.00
Surplus	53,066,250.00	50,416,250.00
Undivided Profits	19,125,999.58	17,000,895.53
TOTAL	$ 125,258,499.58	$ 117,833,395.53
TOTAL LIABILITIES	**$1,831,511,914.11**	**$1,691,915,187.34**

CROCKER-ANGLO NATIONAL BANK®

California's Oldest National Bank

Member Federal Reserve System
Member Federal Deposit Insurance Corporation

On December 31, 1959, securities carried at $278,591,506.63 were pledged to secure trust deposits, United States Government and other public deposits, as required by law. On December 31, 1958, securities so pledged amounted to $246,732,818.32.

ADMINISTRATIVE HEADQUARTERS
1 MONTGOMERY STREET, SAN FRANCISCO 20

Now 85 offices in California

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STEPHEN D. BECHTEL, JR., *Executive Vice President, Bechtel Corporation*
OTHMAR BERRY, *President, Berry Oil Company*
CLYDE H. BRAND, *Downey, Brand, Seymour & Rohwer, Attorneys*
STARR BRUCE, *Vice President, C. Brewer & Company, Ltd.*
WM. HERBERT CARR, *Vice President — Finance, California Packing Corporation*
W. W. CROCKER, Chairman of the Board
ADRIEN J. FALK, *Retired President, S&W Fine Foods, Inc.*
R. G. FOLLIS, *Chairman of the Board, Standard Oil Company of California*
WALTER A. HAAS, *Chairman of the Board, Levi Strauss & Co.*
PAUL E. HOOVER, President and Chief Executive Officer
REED O. HUNT, *President, Crown Zellerbach Corporation*
ERNEST INGOLD, *President, Ernest Ingold, Inc.*
PAUL B. KELLY, First Vice President
JOSEPH A. MOORE, JR., *President, Moore Dry Dock Company*
LAURENCE H. ODELL, *Vice President, W. R. Grace & Co. (N.Y.)*
DAVID PACKARD, *President, Hewlett-Packard Company*
WILLIAM PFLUEGER, Executive Vice President
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JOHN J. REILLY, *Chairman of the Board, Western Department Stores*
MRS. HELEN C. RUSSELL
PORTER SESNON, *President, Porter Estate Company*
RANDOLPH SEVIER, *President, Matson Navigation Company*
EMMETT G. SOLOMON, *Vice President, Provident Securities Co.*
J. F. SULLIVAN, JR., Member, Executive Committee, Retired President (Crocker Bank)

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HERMAN WOBBER, *Twentieth Century-Fox Film Corporation*

In-Plant Service

(CONTINUED FROM PAGE 51)

offer at all or to a limited degree.

(d) On the other hand, most credit unions can provide service that is physically located at the place of work. The office of the credit union is right at (or near) the place of work and the member can discuss his financial problems in person with a fellow worker. In the case of most bank services, the contact will be by mail only. Some bankers consider the impersonal and confidential nature of this "mail order" service an advantage to the employee as well as to the bank. Credit unions, on the other hand, consider the social cohesiveness of their self-help organization a great asset. Some bankers agree; through "in-plant" committees they provide personal contact between the employee and the bank at the place of work.

(e) From the point of view of cost of borrowing, banks and credit unions are competitive; some banks charge slightly more, some slightly less, than a credit union. On savings deposits, banks pay a guaranteed interest of 3% or less; credit unions try to pay dividends which are higher; however, some credit unions fail to pay dividends and some pay less than banks. Others pay as high as 6% on share accounts.

(f) Most banks provide credit life insurance to their borrowers—either without extra charge or for a small charge. Credit unions generally provide credit life insurance without extra charge. They also offer life savings insurance, which doubles the share account in case of death within certain limitations.

Cost and Profit

About half of the banks providing employee service make a charge at regular rates to their "in-plant" customers; about half charge less.

This indicates that payroll deduction and employment verification tend to reduce the cost of service substantially. Unfortunately, many banks do not segregate their "in-plant" service activities, so statistical data on the growth of employee bank services are not available and cost data are limited to those which segregate. Reports from the latter indicate satisfactory financial results and a gain in customers.

Reserve Requirements

(CONTINUED FROM PAGE 38)

would admittedly be difficult to do. However, regardless of the assumptions one might make or the method one might use to try to estimate such a figure, one could not produce an estimate of anywhere near the magnitude that is implied by the manner in which this item is referred to in the Staff Report. Moreover, in the longer run, the Treasury would derive indirect benefits from reductions in reserve requirements as a result of improving the capacity of the banking system to meet the nation's needs for bank credit.

Actually, of course, it would make little sense to place much emphasis on any such estimate anyway. The Reserve banks do not exist primarily to provide revenue for the Government, and policy regarding reserves should certainly not be determined on the basis of the effect on Federal Reserve payments to the Treasury.

Indeed, this whole question clearly should be viewed in a much broader perspective. It is pertinent to recall that the present high level of reserve requirements resulted from extraordinary conditions which developed during the Nineteen Thirties and which have long since ceased to exist. It is also relevant that these requirements are substantially higher than exist in other leading countries which have requirements of this kind at all. Surely the burden of proof should be on those who wish to perpetuate these high requirements rather than on those who favor restoring them eventually to a more reasonable level.

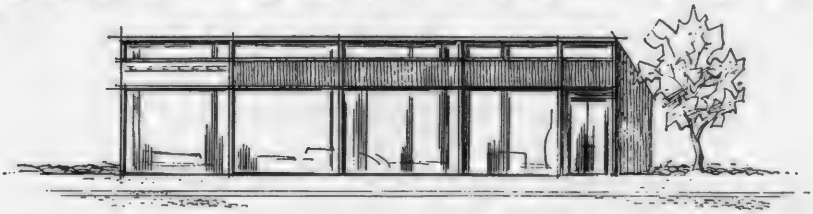
From the standpoint of bankers, of course, these high reserve requirements seem very clearly to be unjustifiable. For example, they certainly discriminate against member banks as against other types of financial institutions. Bankers recognize the need for some reserve requirements to serve as part of the mechanism for regulating the money supply, but it is a very different matter to keep these requirements at far higher levels than needed for credit control purposes.

The discriminatory character of the present reserves system is especially apparent in the requirement applying to savings deposits. As you know, other types of thrift institutions are not required to keep part of their funds idle in this manner. This is discussed in some detail in Chapter VIII of our study.

It seems curious that the authors of the Staff Report who repeatedly express concern over the tightness of

(CONTINUED ON PAGE 122)

Your bank front



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Please send me a free copy of your booklet,

"PUT YOUR BEST STORE FRONT FORWARD."

NAME ....

ADDRESS..

CITY..................................ZONE ....STATE..........................

(CONTINUED FROM PAGE 120)

credit and rising interest rates, should overlook the implications of reserve requirements in this connection. In recent years, of course, a great many banks have been approaching a rather fully loaned position, and the availability of bank credit has been tightening. This situation could easily become even more acute over the years ahead. There will unquestionably be need for the Federal Reserve to loosen the present limitations on the lending capacity of the banking system.

There are, of course, a variety of reasons why this might be achieved more effectively by lowering reserve requirements over the years instead of adding to the Federal Reserve's already excessive holdings of Government securities. First and foremost, reserve requirement reductions enable member banks to replenish their depleted supply of liquid assets, whereas open-market purchases by the Reserve banks may not do so. Secondly, there is no way of knowing how additional reserves created by open-market operations will be distributed throughout the banking system and especially whether they will bring any relief to areas where credit is particularly tight, whereas reductions in reserve requirements enhance the lending capacity of *every* member bank. Third, reductions in reserve requirements enable banks to increase their loans and investments without a corresponding increase in the money supply.

In addition, the authors of the Staff Report are apparently unaware of an important advantage of reserve requirements reductions over open-market operations as a method of achieving ease during recessions. They observe (page 406) that "reserve requirement adjustments are a rather cumbersome tool of short-run monetary policy, and there is very little they can accomplish that cannot be done with more finesse by means of open-market operations." This is usually true with respect to a restrictive credit policy but the very

(CONTINUED ON PAGE 125)

"If we want to live within our income, we've got to stop eating such things as food!"

STATEMENT OF CONDITION

December 31, 1959

RESOURCES

Cash and Due from Banks	$183,232,061.59	
U. S. Government Securities	236,735,409.42	$419,967,471.01
Obligations of States and Political Subdivisions		105,241,938.00
Other Securities		5,567,198.70
Loans and Discounts		437,832,896.73
Bank Premises and Equipment		9,114,839.01
Accrued Income and Prepaid Expenses		4,212,899.42
Other Resources		574,968.35
Total Resources		$982,512,211.22

LIABILITIES AND CAPITAL

Capital Stock (Par Value $20.00 per share)	$ 30,261,400.00	
Surplus	50,738,600.00	
Undivided Profits	8,175,001.03	$ 89,175,001.03
Deposits:		
U. S. Government	17,168,870.14	
Other Deposits	860,339,359.19	877,508,229.33
Discount and Other Income Unearned		8,574,671.67
Interest, Taxes and Other Accrued Expenses		5,771,460.54
Dividend Declared (Payable Jan. 2, 1960)		1,059,149.00
Other Liabilities		423,699.65
Total Liabilities and Capital		$982,512,211.22

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PITTSBURGH NATIONAL BANK

Member Federal Reserve System—Member Federal Deposit Insurance Corporation

PITTSBURGH 30, PENNSYLVANIA

(CONTINUED FROM PAGE 122)

reverse is sometimes true when the Federal Reserve wishes to ease credit. In fact, when shifting from a policy of restraint to one of ease, it is usually desired to achieve an easing of credit quite rapidly and reductions of reserve requirements have a clear advantage over open-market operations for this purpose, since they immediately and directly ease the reserve position of every member bank, whereas open-market operations do not.

Finally, mention should be made of the fact that the existing high level of reserve requirements discourages membership in the Federal Reserve System. Conversely, if requirements can be gradually lowered over the years, membership in the System would be encouraged and this should tend to enhance the usefulness of monetary policy.

In short, we believe that if the subject of member bank reserve requirements merits any attention in a report on employment, growth and price levels, the recommendations should be that the Federal Reserve authorities should work in the direction of a lower overall level of reserve requirements over the years, and that they should continue to use reserve reductions as an effective method of shifting from a policy of restraint to one of ease.

Growth W/O Inflation

(CONTINUED FROM PAGE 39)

discussed in our statement submitted to you a few months ago, the net effect of the Federal budget in recent years clearly seems to have been inflationary (Part 9B of your committee's hearings, pp. 3063-64).

On the matter of instituting additional controls over credit, there is much that might be said. Our positions with respect to regulating consumer and real estate credit are presented in our statement just referred to, pages 3069-71. However, our statement did not contain any comment on the possibilities of direct controls over total bank loans or inventory loans because it did not occur to us that your committee would seriously consider recommending controls of this kind.

To be sure, the staff report does not actually recommend such controls but it does urge that serious study be given to them. We would not hold, of course, that these problems should not receive more study, but we do disagree with the seeming implications that these matters have not been given much thought and that further study would probably lead to fruitful results. These implications may not be intended, of

course, but they do seem to be there. In any event, we gather that the authors of the report do not know of any proposals for controls of this kind which they would wish to endorse at this time.

Incidentally, it might interest you to know that the study of inventory borrowing referred to in the staff report in footnote 20 on page 391 was conducted under the sponsorship of the A.B.A. Economic Policy Commission. The results of this study not only confirmed but further documented the conclusion reached by most people who have studied this subject; namely, that any attempt to institute any direct control over inventory loans would be highly impracticable.

One outstanding deficiency of the staff report, in our opinion, is its apparently defeatist attitude with respect to the inflationary effects of the market power of labor. The authors plainly state that, if inflation is to be avoided, it will be necessary to strike directly at "the exercise of market power which keeps prices and wages from falling or forces them up unduly." They then proceed to make various recommendations for curbing the market power of business concerns, but they not only have no recommendations but do not even suggest study of possible ways of dealing with the market power of unions. If the report had been written after rather than before the recent steel settlement, perhaps its tenor would have been less complacent.

In closing these brief remarks—which we wish could be more thorough—may we again invite your attention to the suggestions contained in our statement published in Part 9B of your committee's hearings and especially to our suggestions relating to the work of your committee (pages 3068, 3077, and 3078). We believe that in your forthcoming report your committee can render a signal public service by clarifying some of the basic facts with respect to the indispensable role of monetary policy, the effects of industrial wage and pricing policies, and other aspects of the growth-inflation problem. We would also like to repeat our suggestion on page 3077 that your committee should plan to produce an objective, authoritative, balanced analysis and synthesis of the various materials which have been contributed to your study of this problem, including the staff report.

An Unusual Degree of Optimism

A.B.A.

The Credit Policy Commission has just completed its semiannual survey of business and credit conditions throughout the country. It would appear that the outlook for the principal industries and for general business conditions for the first six months of 1960 is generally excellent. Bankers uniformly view the future with a degree of optimism that is unusual for these times.

* * *

On the subject of credit demand, the survey of bankers suggests that the first six months of 1960 will show a steady to slight increase over present levels for all commercial loans, which compares to a steady to substantial increase over the corresponding period in 1959. Loans to sales finance companies are expected to show a moderate to more substantial increase while, on the other hand, less activity is anticipated in mortgage warehousing loans, which is occasioned largely by the tight money situation and the conditions in the secondary mortgage market. No material change is looked for in the trend of term loans, and a moderate increase is indicated for other commercial loans.

As comment to this survey, all of the bankers point out the need for the exercise of credit restraint throughout 1960 as we continue to experience the current high level of business activity. The policies of the Federal Reserve Board continue to receive the strong support of the bankers participating in this survey. If we are to continue to combat the strong inflationary forces in our economy, and it would appear that we had done so with a great measure of success in 1959, it is then apparent that the Treasury should receive the necessary support from the Congress to accomplish this vitally important result. The restriction under which the Treasury is now operating in attempting to fund its debt over the long-term area should be adjusted by removal of the rate ceiling.—William F. Kelly, chairman, A.B.A. Credit Policy Commission, and president, First Pennsylvania Banking & Trust Company, Philadelphia, at the National Credit Conference.

Bank Personnel-Citizen Teamwork Foils Holdups

SIGNIFICANT progress against holdups is being made by banks, according to the Insurance and Protective Department of the American Bankers Association, which says that during the first three months of the current Association fiscal year, only eight of 30 lone bank bandits who attempted robberies in one state escaped with loot and have not been arrested or identified.

Of the 30 lone-bandit holdups, eight were frustrated, with five of the bandits being arrested on the spot and three others escaping without any loot. In eight cases, the bandits were arrested within a few hours and the loot recovered from seven of them. In four other cases, the bandits were arrested within two weeks, and two additional bandits are identified and are sought by the Federal Bureau of Investigation. This leaves only eight bandits unidentified and still at large and places the odds about 1 to 4 against successfully robbing a bank and evading arrest.

"These results demonstrate discretion and good judgment on the part of bank people," according to George H. Hottendorf, deputy manager in charge of the A.B.A. department. "No one sustained physical injury in any of the attacks."

In the first of the eight holdups that were frustrated, a crew-cut young man presented a note to the bank teller which read, "I am doped! Will kill! Act natural!" The teller calmly told the bandit, "I am sorry I don't have any cash," and the young man, apparently perplexed, ran from the bank. In another attack, the bandit's note ordered the teller to count out some money as though she were cashing a check. The teller counted out a small amount, gave it to the bandit, and immediately put the bank's protective plan into action. The bandit was caught in the bank and the loot recovered intact.

In two attempted robberies, the bandits were arrested within a few minutes in neighboring stores.

The A.B.A. report says: "Details of the 30 lone-bandit holdups are replete with teamwork of bank personnel and cooperation on the part of citizens in the community, customers, folks at home, and businessmen."

"I think I have a coin here in the frayed lining of my 10-year-old suit!"

STATEMENT OF CONDITION

AT CLOSE OF BUSINESS DECEMBER 31, 1959

RESOURCES

Cash	$110,290,507.48	
U. S. Government Securities	86,033,215.14	$196,323,722.62
Municipal and Other Securities	$ 11,935,793.92	
Federal Reserve Bank Stock	750,000.00	12,685,793.92
Loans and Discounts	$170,097,732.54	
U. S. Government Securities—Resale Agreements	20,502,615.49	190,600,348.03
Banking House		7,958,359.30
Other Real Estate	$ 2,040,998.56	
Furniture and Fixtures	227,541.48	2,268,540.04
Interest Earned Not Collected	$ 1,601,208.53	
Other Assets	612,878.71	2,214,087.24
Customers Liability-Letters of Credit and Acceptances		3,078,603.73
Total Resources		$415,129,454.88

LIABILITIES

Capital	$ 11,000,000.00	
Surplus	14,000,000.00	
Undivided Profits	5,443,536.88	$ 30,443,536.88
Reserved for Dividends	$ 660,000.00	
Reserved for Other Purposes	7,720,448.39	8,380,448.39
Deposits:		
Corporate-Individuals	$312,132,953.94	
Banks	53,597,926.27	
United States	7,495,985.67	373,226,865.88
Letters of Credit and Acceptances		3,078,603.73
Total Liabilities, Capital and Surplus		$415,129,454.88

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THE NATIONAL BANK OF COMMERCE OF HOUSTON

Expanding now to Main, Rusk, Travis, and Capitol

Member Federal Deposit Insurance Corporation

Political Action

(CONTINUED FROM PAGE 55)

go a long way to correct the deplorable situation that Senator Hugh Scott of Pennsylvania described last April at a Harvard Business School regional conference. He said:

"Business and professional people are being outworked, outsmarted, and outnumbered at the polls. Dislike or distaste for competition in the political arena leaves to others, more sensitive to what is their interest, the power to decide what is your interest, whether you like it or not.

"American businessmen are afflicted with chronic political laryngitis which may relegate them to the category of a pitiable minority group to be tolerated in our society for the achievements of their ancestors."

For another thing, it will do much to change the attitude of businessmen toward politicians and politics. This is important. But even more so, it will bring about a better understanding by politicians of businessmen and business problems.

This will be true even if a number of businessmen should become disillusioned and drop out. As with any movement of this kind, there will be many who find the long haul too tough to take. But those who remain after this initial enthusiasm has subsided will be enough to condition the political atmosphere. In any case, the new look in political habits will feature more gray flannel suits as the movement gets under way.

Welcomed by Labor

Labor, which by this time is an old hand in training for political action, has welcomed this movement on the part of businessmen, although it has been a bit skeptical about how sustained the effort will be. It provides further stimulus for the rank and file to get deeper into politics.

Labor's own self-confidence in this field was reflected in a statement by George Meany, president of the AFL-CIO. It was to the effect that they (business people) have the money while we (labor) have the people. And in any contest between money and people Mr. Meany had no doubt about the outcome.

Few, if any, of those who have set up practical politics programs in business regard them as counterthrusts to labor. If perchance they do, Mr. Meany is right—in a political showdown business would be counted out at the polls. On some issues labor will be an ally, not an adversary.

Businessmen have broad objectives in this movement. They are out to improve the political climate for business. In such a climate bankers, for instance, would have more of a say in such matters as the restrictions imposed on their service, high taxes, and inflation.

The Author Adds a Postscript

P.S. So much for a survey of a movement in which the writer has participated. But because this correspondent works in Washington and is in close touch with members of Congress in covering for BANKING, he would like to add this personal postscript wholly on his own.

It is not enough that businessmen get out and work to elect high cal-

(CONTINUED ON PAGE 132)

(CONTINUED FROM PAGE 130)

iber men to public office, and then drop away—until they need a favor. There is an extra step. And that is to help them with the chief stock in a politician's trade, information on public issues.

Despite all the talk about "influence," it is still the cogent presentation of facts that most Congressmen need and appreciate in reaching a decision. This is recognized by successful lobbyists as the best vehicle for communication and persuasion. Usually the professionals work so closely with members of Congress and their staffs that they know without asking where help is needed and then make it available. Their intimate knowledge of a particular situation will sometimes enable them to make the point that turns a vote.

It follows that bankers and other businessmen who keep in close touch with members of Congress will be appreciated as constituents if they keep the legislators informed on matters affecting them. There are few more lonely than Congressmen shipped off to Washington to make momentous decisions without the benefit and comfort of those in whom they have confidence.

Five Problems All Bankers Face

Here are excerpts from an address by Vice-president Carl A. Bimson of the American Bankers Association before the Mid-Winter Conference of the Wisconsin Bankers Association on January 25. Mr. Bimson is president of the Valley National Bank, Phoenix, Ariz.

THESE problems affect banks in all parts of the country so a team effort is of the utmost importance if we are to begin to find a solution.

Inflation. In 24 of the last 30 years the Federal Government has spent more than it has received. Also, in the last 10 years the average hourly wages of production workers in all manufacturing industries have risen 60%, but output per man-hour has risen only 33%, and consumer prices rose 24%. Only an informed public, aroused to the danger, can put a stop to this menace. Bankers have a real responsibility to take every opportunity to point out the dangers of inflation and some of the reasons we are faced with this danger.

Competition. Retention of customers should be a major concern of every banker. Many of the so-called new developments in banking spring from a real need to serve a market that is getting increasingly difficult to service. Such innovations as in-plant banking, credit cards, revolving credit lines, and bank-by-mail may well be received with mixed emotions. On the other hand, the new approaches have made it possible for a single bank to serve more customers and serve them better.

Capital structure. The trend toward larger operating units in farm, ranch, or business has created the need for larger loans by fewer individuals—loans of a size which have in many instances out-stripped the capital growth of the local bank.

An aggressive sales program to attract more deposits may help ease the loan-deposit ratio bind. Actually, savings are an excellent stabilizer and, in my opinion, they should be aggressively promoted.

Operating costs. Electronic accounting will certainly not solve all of our manpower and rising cost problems, but it may help to offset some of the rising costs with which we are faced. We are going to have to get used to the idea of making our dollars work harder, and of educating our customers to pay a reasonable fee for many of the services for which we have long been underpaid.

Personnel. Banking is still a business where our real management "grows up" with the business. Our job is to help develop our management succession within our own institution whenever possible. The problem of retaining good men is not simply a matter of salary and title. I would like to submit other considerations: the acceptance by management of new ideas; the willingness to be progressive; and the delegation of authority.

(CONTINUED FROM PAGE 30)

About People

Wilson Parfitt, from executive assistant to assistant executive secretary, FPRA.

James S. Neely, executive vice-president and consultant, relinquishes his post as head of the correspondent bank department, City National Bank & Trust Co., Kansas City.

Horace W. Brower becomes president, Transamerica Corporation, San Francisco, Calif.

Woodrow W. Denney, from assistant trust officer, to vice-president and trust officer, First Western Bank and Trust Company, San Francisco.

Ira F. Willard, from city manager, Miami, Fla., to president, City National Bank of Coral Gables, Fla.

David T. Harris, Lloyd W. Pedersen, both become vice-presidents at The United States Trust Company of New York; Donald Maher becomes assistant vice-president; Fred W. Albright becomes assistant secretary.

James J. Thackara becomes vice-president, Chase Manhattan Bank, New York.

Oran S. Parker, secretary and treasurer, also becomes a vice-president at The Connecticut Bank and Trust Company, Hartford.

Clarence H. Walton, Jr., becomes a vice-president at First Western Bank and Trust Company, San Francisco.

James J. Kelleher, from assistant cashier to assistant vice-president, Palmer First National Bank and Trust Company of Sarasota, Fla.

A. E. Bradshaw becomes board chairman, National Bank of Tulsa, Okla., succeeding E. I. Hanlon, who becomes honorary chairman; W. A. Brownlee, from president to vice-chairman.

Falkner C. Broach, from executive vice-president to executive committee chairman; Marvin Millard, president. E. L. Stucker, former senior vice-president to executive vice-president. Earl Beard and Marcus R. Tower, from vice-presidents to senior vice-presidents.

From assistant vice-presidents to vice-presidents: Rolland H. Adams, Marvin Y. Bray, John Cleary, Hal Macon, and H. B. Pettit.

Richard M. King becomes vice-president, Crocker - Anglo National Bank, San Francisco; Philip G. Markwart becomes vice-president and trust investment officer.

Joseph Richard, Jr., becomes vice-chairman of the board and the executive committee, Suburban Trust Company, Hyattsville, Md. Fred L. Lutes becomes vice-president; Benjamin C. Shaw, senior vice-president; Brice D. Duckett, vice-president; Lloyd S. Carey becomes treasurer.

John T. Newton, vice-president, Dundee Cotton Mills, and past board member, Bank of Madison, Ga., has been elected to the board of State Bank, Griffin, Ga.

Randall P. Roberts, vice-president, Valparaiso (Fla.) State Bank, has been elected mayor of the city of Valparaiso.

John Rial, trust officer, First National Bank in Greensburg, Pa., also becomes vice-president.

Leslie N. Hutchinson becomes president, Bay State Merchants National Bank of Lawrence, Mass.

Benjamin F. Louis, treasurer, also becomes vice-president, Newton (Mass.) Savings Bank.

Herbert C. Hackbarth becomes executive vice-president, Waukesha County Marine Bank, Pewaukee, Wis.

Richard D. Brown, John H. Kelly, Sheldon B. Lubar, become vice-presidents at Marine National Exchange Bank, Milwaukee.

Gerald C. Mann, Jr., becomes vice-president, Chicago City Bank and Trust Co.

NABW Fetes Top New York Bankers

PHOTO BY ELI AARON

Top executives of the Greater New York area banks were entertained at a reception and dinner on Executives' Night by the Metropolitan New York Group of the National Association of Bank Women. Guest speakers included the Honorable Caroline K. Simon, Secretary of State of the State of New York, and the Honorable G. Russell Clark, Superintendent of Banks of the State of New York. *Left to right*, Charles J. Stewart, president, Manufacturers Trust Company; Ruby L. Walters, assistant secretary, Manufacturers Trust Company and vice-chairman, Metropolitan New York Group, NABW; Mr. Clark; Eleanor C. Waters, assistant vice-president, The Seamen's Bank for Savings, and chairman, Metropolitan New York Group, NABW; and Edmund F. Wagner, chairman and president, The Seamen's Bank for Savings

CLYDE HENDRIX, JR., from vice-president to senior vice-president, Hibernia National Bank in New Orleans, La.

H. R. MILLER, FRANKLIN A. MCWILLIAM, RAEBURN F. HAY, RICHARD R. REIDLER, all become vice-presidents at First Western Bank and Trust Company, San Francisco, Calif. HAROLD L. JACOBSON, vice-president, retires.

HERMAN F. FEUCHT becomes senior vice-president, American National Bank of Denver, Colo.; JOHN C. MACLEOD, cashier, also becomes vice-president; EVERETT C. FAAS, from assistant vice-president to vice-president; LEE GILLETTE, from assistant cashier to assistant vice-president.

EDWIN S. JONES, JOHN B. MITCHELL, both vice-presidents, become senior vice-presidents at First National Bank in St. Louis.

ERNEST D. WILT, from executive vice-president to president, Arlington (Va.) Trust Company; H. PAUL MOUNT, from vice-president to executive vice-president; FRANK S. EMBREY, from vice-president to senior vice-president; EDWIN D. FRANCIS, treasurer, also becomes vice-president, as does HARRY ESMACHER.

RAYMOND POLLOCK, from assistant vice-president to vice-president, First National Bank and Trust Company, Oklahoma City, Okla.; MARION L. KORDIC, CARL E. GRANT, both become assistant vice-presidents.

JAMES A. FARLEY, JR., member of the New York State Athletic Commission, becomes president of Central Industrial Bank, Brooklyn, N. Y.

PHILIP E. BYRON, JR., joins St. Joseph Valley Bank, Elkhart, Ind., as vice-president.

Eugene R. Black

A move has been started, and is gaining considerable support, for the nomination of Eugene R. Black for the Nobel Peace Prize for 1960. Mr. Black has been president of the International Bank for Reconstruction and Development for the past 10 years.

"Under his sure leadership the institution has become vastly more than a financial apparatus; it has become a vital factor for promoting world peace," reported the *Atlanta Journal and Constitution* in endorsing Mr. Black for this outstanding award.

Staunch support for his nomination comes from the *Southern Banker*, which points out that the idea has been heartily acclaimed by "bankers, and others in this country and abroad who know of the magnificent work Gene Black has done." Additional backing was also provided by the *American Banker* in a recent editorial praising Mr. Black's efforts.

The Nobel Peace Prize is awarded annually by a committee of five elected by the Norwegian Parliament. The recently-announced recipient for 1959 was Britain's Philip J. Noel-Baker. The last American to win the award was George C. Marshall in 1953. No awards were made in 1955 and 1956.

Lessons of Recent Money Rate History

(CONTINUED FROM PAGE 45)

had come to be regarded as normal. Since then the spread has all but vanished. Going back into the last century the authors find that as narrow a spread as that of 1956-57 is by no means unusual. Before 1930 short-term rates were often equal to or higher than long-term rates.

Normally, short-term rates fluctuate over the business cycle more than do long-term rates. The change that occurred in 1930 and persisted so long is attributed to the depression, war finance and the pre-accord easy-money policy. Given flexible monetary policy, Goode and Birnbaum expect future interest-rate behavior to resemble that of the pre-1930 period. During that period it was not at all unusual for short-term and medium-term rates to be higher than long-term. Short-term rates, sensitive to the business cycle, were usually low relative to long-term rates at the trough of the cycle and high at the peak. This tendency, absent during the late 1930s and through the early postwar period, seems to have resumed. The pattern is clearly shown in the accompanying chart, page 136, taken from Goode and Birnbaum. The chart reflects the average pattern of long-term and short-term rates during 19 different business cycles occurring between 1858 and 1933.

The averages recorded in the chart conceal wide differences in the range of variability as well as irregularities in the timing of movements in individual cycles. These differences appear to have narrowed with the advent of the Federal Reserve System in 1914.

A second Goode and Birnbaum chart shows the average pattern of long- and short-term rates during the four business cycles that marked the period 1933-54. A third chart shows interest rate profiles during the 1954-58 cycle. If the same pattern is to be followed in the current cycle, now on the upgrade, we may expect the advent of business contraction to be marked by a dip, followed by a sharp drop-off in Treasury bill and commercial paper rates, accompanied by a moderate decline in long-term bond yields.

Treasury Demand Probably Less

While the future is hard to assess, it appears fairly clear this winter that the Treasury's calls on the money market will be very much smaller than in 1958 and 1959. Demand for mortgage money is also smaller. The biggest single demand will be for consumer instalment credit. State and local government demands also will be big. Industrial and commercial demand for money presents a mixed picture. Current needs for inventory rebuilding are large. But business depreciation reserves and retained earnings also will be large, a fact which will exert its influence on the market when inventories have been restored.

In addressing the American Finance Association on the Government bond outlook on December 28, Dr. Beryl W. Sprinkel of the Harris Trust & Savings Bank, Chicago, saw little reason to expect an easing in monetary policy in the near future. Viewing a continued business uptrend as likely, the economist anticipated that rates on Governments may have to rise to attract new private investors, with both short-term and long-term yields increasing. While some temporary easing of short-term rates may ensue, particularly if the Congress eliminates the 4¼% ceiling on Treasury bond coupons, a general weakening in the interest rate structure of Government and other securities is unlikely until the next cyclical downturn occurs, Dr. Sprinkel concludes.

A Common Fallacy

Money is tight because business is good and will remain tight while business remains good. There is much political pressure on Washington to make money easier for homebuyers and others by expanding the money supply. This country always has had its advocates of the printing press. It is a common fallacy to think that, because more money in an individual's hands—as compared with his neighbor's—makes him wealthier, more money in general circulation makes a nation wealthier. Money is not true wealth, but only a claim on true wealth. Cheap money or easy money is not the magic key to "growth." Nor, as Secretary of the Treasury Anderson told the American Economic Association recently, is growth of just any kind a desirable national goal.

In their latest *Quarterly Review,* Model, Roland & Stone, New York brokers, discuss interest rates, cyclical expansion, and economic growth, and they conclude that there is nothing inconsistent between growth and high interest rates. They say: "While the statistical data regarding interest rates and economic growth are not conclusive, the qualitative descriptions of the long waves (40- to 50-year cycles) indicate that there is a concurrence of economic growth and rising interest

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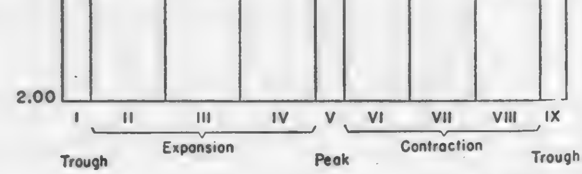
In each of the charts at the right, the average monthly rate or yield during each of the nine reference cycle stages (represented by roman numerals) is plotted at the midpoint of the cycle stage. The horizontal axis represents the duration, in months, of the cycle stages. In each chart, the curve is a composite of the average behavior of interest rates in whatever number of business cycles occurred during the period in question. There were 19 business cycles in the 1858-1933 period, four in 1933-54, one in 1954-58. The nine stages are an arbitrary statistical division applied to any business cycle.

Average cyclical pattern of long-term and short-term interest rates in the U.S., 1858-1933. (In percent per annum)



Le Nouveau Franc

In France, where monetary tinkering was for many years a political pastime, the financial house is being put into order. One recent measure was the issuance of a "new franc," also referred to as a "heavy franc," worth 100 "old francs." The public was given a period of instruction in the use of the new coins and some confusion was anticipated. (As yet there are no new notes, but some of the old ones have been surcharged with their new value.)

In the picture at the right, a puzzled citizen reads a poster telling him that all the coins actually in use will remain in circulation, with a value equal to one-hundreth of the value indicated on the coin; that, starting on January 4, 1960, two coins with the new franc value will be put into circulation—a 5-franc piece in silver equal to 500 old francs, and a 1-franc coin in nickel worth 100 old francs. Other coins of varying denominations will be issued later, says the poster, and it shows what certain frequently purchased items will cost in the "new francs."

AGENCE-FRANCE-PRESSE FROM GILLOON

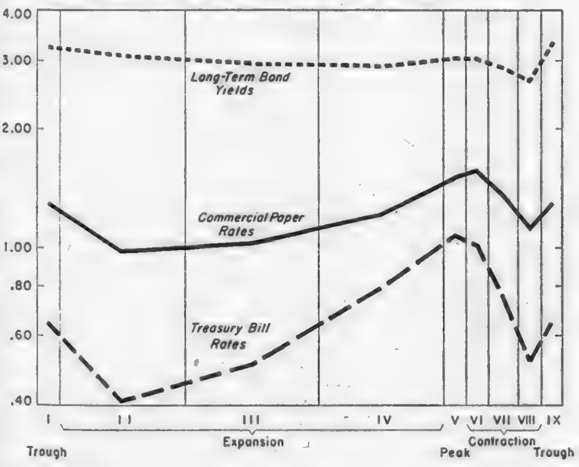
rates. Over these long periods high interest rates are likely to be associated with a large demand for capital, high levels of investment, and a more than average rate of growth of output. In brief, the level of interest rates is much more the consequence than the determinant of the state of the economy. . . .

"Long-term interest rates have followed rather than preceded the trend of gross physical output in the private sector of the U. S. economy from 1901 to 1959. . . . There is a tendency these days to look forward to an accelerated rate of growth in the 1960s. If such a period of accelerated growth should materialize, it would inevitably result in even higher interest rates."

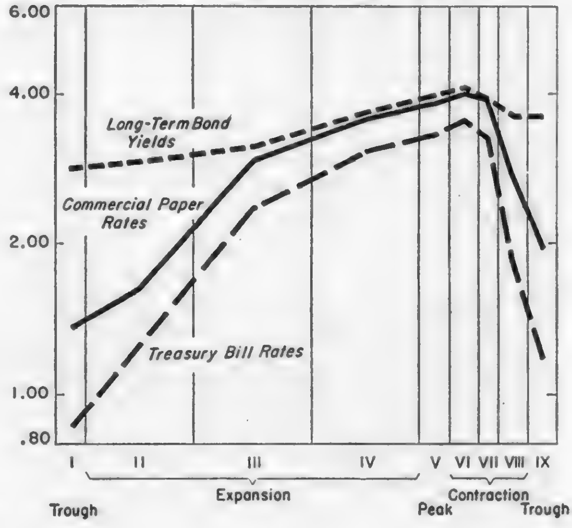
All this is true, to the extent that the price of money is left to find its own level. Tight money tends to stimulate true savings for investment in growth. It tends to encourage confidence in the dollar. It serves to dampen ebullience, to act as an automatic economic regulator.

But it is this country's official policy in economic affairs not to let nature take its course entirely without interference. Our national goal is to have an economy of maximum stability. Monetary management is the assigned function of the Federal Reserve Board. Its duty is to ease money when the economy slackens and to tighten money when expansion of business threatens to get out of hand. The Board can create money but it cannot thereby create prosperity, growth, and national strength. If it were all that simple, we'd give Mr. Khrushchev much tougher competition than he already faces when he essays to equal our standard of living.

Same data as in chart at left, for 1933 to 1954



Pattern of U. S. interest rates, 1954-1958



What's in Store for Banking in the Sixties

A.B.A. President John W. Remington Urges Bankers to Avoid Complacency and Bend Every Effort to Achieve Economic Growth

The following paragraphs are taken from an address by the president of the American Bankers Association before the 12th National Credit Conference, recently held in Chicago. MR. REMINGTON *is president of the Lincoln Rochester Trust Company, Rochester, N. Y.*

IT is my opinion that we can expect great achievements from our economy in the next decade. Banking not only can, but *has* an obligation to contribute at least a substantial share to the growth of credit and other financial services which will be needed.

While commercial banking has experienced substantial growth in the past two decades, it is all too apparent that other lending institutions, both public and private, have grown much more rapidly. In part, this faster growth has been caused by the willingness of some of these lenders to accommodate types and kinds of credit which, in the last analysis, probably should not have been extended by commercial banks.

Nonbank lenders — both government and private—should not seek and should not be permitted to liberalize and enlarge credit to the point where it may jeopardize the results which come from sound and progressive banking policies. Some nonbank institutions should be held responsible for a too free and easy use of credit and should not be permitted to excuse their action by claiming that their inability to "create" money puts them in a special position.

The View Ahead

Now let us concentrate on what may be in store for banking in the Sixties. We have been experiencing —with some slight lapses—one of the longest sustained periods of prosperity in our history. We must recognize, however, that our so-called, built-in stabilizers have not eliminated the business cycle and that it is difficult to chart the future accurately. We would be foolhardy, indeed, to assume that the boom we have been enjoying is permanent. We may all agree that 10 years from now our economy will be vastly expanded, but history cautions that we may have *some* ups and downs in the meantime.

We have Government loan insurance and guarantees, deposit insurance, and a tremendous rediscount potential at our central bank—to be used in case of an emergency. But, these are designed to be our ultimate defenses in an emergency or crisis. They should not permit us to develop a false sense of security. Our goal—and our best defense—should be a credit structure that will not collapse under stress.

Experience has shown that during periods of expansion in economic activity, risks grow in certain areas of credit. We must be certain that the unjustifiable risks and the speculative excesses of the Twenties do not reappear in new guises.

Some Words of Warning

I should like to comment on some specific areas of credit—with a few words of warning.

In commercial banking consumer instalment credit, real estate credit, and term loans have become much more prevalent than formerly. We can expect them to be prominent in bank lending in the future, and they will require careful watching.

As for consumer credit, no one would now deny its economic usefulness when it is used to permit consumers to meet their legitimate needs and when it is used with discretion.

At the present time check-credit plans and other types of revolving credit have become popular in many localities. Bankers should study carefully the need and potential of this kind of credit. Then, if it seems wise to adopt a program, applications should be screened thoroughly, loans should be reviewed regularly, and there should be reasonable restraint used in advertising and in other forms of promotion.

We should always bear in mind that to the extent we—and other lenders — provide legitimate consumer credit and avoid excesses, we will demonstrate that we can operate wisely and efficiently without consumer instalment credit controls.

Reappraise Some Policies

With reference to real estate credit, lending terms have been vastly altered in recent decades, in part, at least, because of the policies and influence of Government agencies. In this area of credit we need to reappraise lending policies. It is true some lenders go to extremes in lowering downpayments, extending maturities, and raising loan-value ratios. But it may be true that many commercial banks are erring in the opposite direction—too cautious and too conservative. Banks in general, through careful, realistic mortgage lending can contribute significantly to the growth of their communities.

Now, let us take a broader, more positive approach.

To be realistic we must recognize that competition, market forces and the profit motive will provide the main forces which will determine the lending and investment practices of banks. However, bankers will be passively pushed along by impersonal market forces, for on the supply side of credit their judgment of what is legitimate bank lending, and what is not, is in fact one of the major detriments of the market. Of course, banking laws, regulations, and supervisory policies set the limits within which banks must operate, but they leave room for en-

lightened policies. At any given time there are alternative loan and investment opportunities and it is in choosing among these alternatives that bankers can contribute to a sound banking system and economic growth.

There is, however, one very important element beyond the control of individual bankers. They cannot determine the total level of bank credit available to the economy, which in boom periods is influenced so directly by monetary policy. Nevertheless, given an aggregate amount of bank credit, it is the function of bankers to allocate it among those who seek it. In fulfilling this function, bankers are clearly responsible for the soundness of credit—a responsibility which must be shouldered by nonbank lenders also—both Government and private in their areas of operations.

A Long-Term Probability

Unlike some of the easy money years in the past two decades, we are now experiencing a period in which available credit is not being allowed to grow as fast as many would like. There is every likelihood that monetary policy for the foreseeable future will be designed to provide us with such increases in the money supply as are necessary for real economic growth without fostering speculative excesses.

Commercial bankers, to meet credit needs, have a real incentive to seek increases in their savings deposit business. While success in attracting savings into commercial banks may not add to total deposits in all thrift institutions, it will give commercial bankers control of the disposition of more funds. In any event, it is clear that bankers, for some time to come, will need to assume the difficult task of rationing available credit.

I should like to dissociate myself from all gloomy and pessimistic views on the outlook facing us. Although I have used words of caution, banking — in its lending, investing, and even in most of its advertising — is developing in the manner which will maintain our fine, sound banking system. The main concern which we should all possess is that we not only avoid complacency, but positively and actively bend every effort to the achievement of growth in our economy.

Tax-Exempt Bonds

(CONTINUED FROM PAGE 7)

banks can, and are, servicing local and regional market names in their areas as to such factors.

Foremost in importance, of course, are the economic factors bearing on the nature and extent of wealth, sources and stability of income, and growth trends. The bank located near the obligor on the bonds is in an exceptionally favorable position to compile and analyze information bearing on these factors. The bank files will contain information on the businesses and industries in the community whose bonds are held, and the real estate situation will normally be well understood as a result of mortgage activity and general familiarity with the area. Economic factors, in other words, can be reviewed by direct contact and personal observation, often merely by coordinating information already gathered for other phases of bank business.

A second group of factors has to do with legal and administrative matters—the form of government, competence of management, quality of budgeting, financial planning, record keeping and reporting, adequacy of the taxing and revenue systems, kind of control imposed by state laws governing the issuance of bonds, and so on. Technical features of these factors are usually known to bank personnel (when taxes are due, how well they are collected, how competent officials are) and other material is readily available since it pertains to the same state as that in which the bank is located, or, at most, adjoining states, so that information can be readily acquired and changes immediately noted.

Financial Factors in Analysis

The third major area of credit analysis has to do with what are fundamentally financial factors—the composition and arrangement of the debt, future trend of debt service, condition of debt and sinking funds, past payment history, prospective levels of borrowing, present and prospective debt load, and the condition and trend of the operating funds. Highly refined techniques are possible for the analysis of these factors, requiring a lengthy apprenticeship, but close observation can take the place to a considerable degree of high-powered statistical analysis, and, by concentrating on major indicators and keeping in reasonably close touch with each situation, the small institution can maintain in its municipal credit files information fully adequate to document the financial condition of the obligor. Moreover, the bank working with nearby names is able to get information first-hand with a minimum of expense and inconvenience.

It may be objected that the acquisition for tax-exempt investment of local and regional market names so near the bank involves a sacrifice of diversification that may be especially serious inasmuch as the bank also holds commercial paper and mortgages, and so forth, from the very communities which are the obligors on its municipal bonds. This may be handled in two ways: first, by the selection of hard-core national market names representing obligors affording a degree of geographic and economic diversification, and, second, by exercising care that the local names acquired are of sat-

(CONTINUED ON PAGE 142)

Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

Condensed Statement of Condition December 31, 1959

(Figures of Overseas Branches are as of December 24, 1959)

RESOURCES

Cash and Due from Banks		$ 1,950,683,148.31
United States Government Securities and Securities Guaranteed by the Government		1,796,335,874.20
Federal Agency Securities		91,584,957.73
State, County, and Municipal Securities		704,043,718.78
Other Securities		133,428,392.56
Loans Guaranteed or Insured by the United States Government or its Agencies		1,506,864,657.40
Other Loans and Discounts		5,092,803,574.29
Bank Premises, Fixtures, etc.		157,408,186.09
Customers' Liability for Acceptances		158,182,278.88
Accrued Interest and Other Resources		78,069,558.02
TOTAL RESOURCES		**$11,669,404,346.26**

LIABILITIES

Capital	$160,000,000.00	
Surplus	340,000,000.00	
Undivided Profits and Reserves	132,666,983.31	
TOTAL CAPITAL FUNDS		$ 632,666,983.31
Reserve for Possible Loan Losses		118,627,944.96
DEPOSITS Demand	$5,327,676,664.66	10,624,958,182.01
DEPOSITS Savings and Time	$5,297,281,517.35	
Liability on Acceptances		160,180,326.22
Reserve for Interest, Taxes, etc.		132,970,909.76
TOTAL LIABILITIES		**$11,669,404,346.26**

Main Offices in the two Reserve Cities of California

SAN FRANCISCO • LOS ANGELES

Branches throughout California

Overseas branches: London, Manila, Tokyo, Yokohama, Kobe, Osaka, Bangkok, Guam

Member Federal Deposit Insurance Corporation • Member Federal Reserve System

Bank of America

(International)

A wholly-owned subsidiary

Condensed Statement of Condition December 31, 1959

Home Office—New York, N. Y.

Branches: Duesseldorf, Singapore, Paris, Beirut, Guatemala City, Hong Kong, Kuala Lumpur

(Branch figures are as of December 24, 1959)

RESOURCES

Cash and Due from Banks	$130,146,316.11
United States Government Obligations	16,126,160.15
Other Securities	13,566,188.74
Loans and Discounts	169,789,764.84
Customers' Liability for Acceptances	27,613,217.27
Bank Premises, Furniture, and Fixtures	3,461,985.63
Accrued Interest and Other Resources	3,207,155.86
TOTAL RESOURCES	**$363,910,788.60**

LIABILITIES

Capital	$34,000,000.00	
Surplus	6,800,000.00	
Undivided Profits	1,233,651.44	
TOTAL CAPITAL FUNDS		$ 42,033,651.44
Reserve for Possible Loan Losses		3,091,776.86
Deposits		287,887,653.94
Liability on Acceptances		28,275,491.24
Reserve for Interest, Taxes, etc.		2,622,215.12
TOTAL LIABILITIES		**$363,910,788.60**

(CONTINUED FROM PAGE 140)

isfactory credit quality when acquired and remain so. Exchange of information with correspondent banks on names in their areas is also often practicable.

There remains a major problem for the bank officer or employee who is going to undertake the administration of the type of operation here described. How can he acquire the background of standards and norms against which to measure the performance of the credits with which he is concerned? While there is an ample supply of textbooks, manuals, and correspondence courses on commercial credit analysis, and books on mortgage analysis and the analysis of corporate securities, there is no wholly satisfactory textbook on the analysis of municipal credit. A literature is not lacking, however. The definitive history of state and municipal bonds remains A. M. Hillhouse's *Municipal Bonds: A Century of Experience,* published in 1936 by Prentice-Hall, while the beginner will probably find nothing more helpful than *Fundamentals of Municipal Bonds,* published in 1959 by the Investment Bankers Association of America, which includes the extremely useful paper on analysis originally prepared in 1949 by H. C. Taylor, then assistant cashier of the Chase National Bank of New York City.

Valuable too is the FDIC's *Municipals,* outlining the requirements for establishing and maintaining the municipal credit file. Add to this the reading of carefully selected periodicals in the field of governmental finance and administration and the systematic study of the comprehensive surveys of other experts in the field, and the rankest beginner may regard himself as well on the way to developing the skills which will permit his bank to take greater advantage of the yields afforded and likely to be afforded for some time to come by tax-exempt bonds.

FIGURES v. FACTS

Though your budget will often show
You haven't a dime to spare,
It will help you pay as you go—
If you don't go anywhere.

STEPHEN SCHLITZER

Our Depositors

(CONTINUED FROM PAGE 49)

higher than had ever been known upon this earth before. It made possible to the common man comforts of life unknown to the rulers of kingdoms of but a few generations ago. If we are to abandon this and to assume that progress is to be found only by discarding the fruits of experience, let us at least do so knowingly, and let us not be fooled in what we are doing; and let us talk it over with our depositors. Do not leave them to hear but one side of the story.

Let us not subject ourselves to the just criticism of our stockholders, our depositors, and the public, by ignoring the rules which the past has demonstrated to be essential to the safeguarding of the moneys entrusted to us.

Let us not forget that, to the extent that Government uses its credit to establish institutions competitive with banks, it weakens its capacity to afford relief in an emergency, and that to the extent of such competition in normal times banks are reduced in their capacity to carry on. Competition of Government with business in normal times necessarily weakens private industry, and likewise reduces the capacity of Government to afford relief in abnormal times. This is one of the penalties for permanent intrusion of Government into business.

Depositors Must Be Told

We know the importance of a tax-conscious voting citizenship. We know that, if our depositors understood the extent of the obligations being foisted upon them, they would rise in their might and in their numbers demand that an end be put to the continued borrowing by Government. We know that the continuance of the present policies of Government can lead to but one end. We know that they are not restoring real life to industry, but are merely giving temporary relief at the cost of permanent injury. We know that the money spent today to bring about the appearance of prosperity is a charge upon the future. We know that the continued accession of power to the Federal Government must lead ultimately to the destruction of the constitutional rights under which private initiative has had a field for action. We know that it is not too late to act. The power to shape our course, to put an end to the evils that beset us, still lies with the depositors of America. They are our finest citizens and constitute the strength and backbone of our country. Give them the facts, and you may trust to the soundness of their heads and hearts.

Opportunity for unusual service comes only in great crises. Leadership at such times calls for both wisdom and courage. Not in our lifetime has there been such opportunity for service by bankers as now exists. The danger is grave and imminent, yet the people can be trusted to act rightly in their own interests if we give them the facts.

Let us not make it possible for history to record that in this supreme hour the bankers of America, out of silence induced by fear, failed both their depositors and their country. When the future of the nation and the welfare of its people are involved, mere party politics sink into insignificance. The issue is no longer one of mere partisanship but of simple honesty and genuine patriotism.

Mutual Savings Banks and the Mortgage Market

This article is based upon an address by JOHN DELAITTRE, *president of the Farmers and Mechanics Savings Bank of Minneapolis and of the National Association of Mutual Savings Banks, before the annual convention of the National Association of Home Builders in Chicago, Ill.*

To cite a few figures, between 1950 and 1959 savings banks made a net investment of $12-billion in federally underwritten mortgages—largely to finance new homes—compared with less than $9-billion for life insurance companies, a little over $6-billion for savings and loan associations, and about $3.5-billion for commercial banks.

Mutual savings banks have also participated actively in conventional mortgage markets but far less than have the other main types of financial institutions. This is owing in large part to legal requirements which, with limited exceptions, confine conventional lending to the states in which savings banks are located or to contiguous states. Moreover, the terms on conventional loans are more restrictive than on federally underwritten loans and most savings bank states limit the volume of conventional loans which an individual savings bank may hold to some percentage of its assets. Finally, house-building has been relatively less active in the East—where savings banks are concentrated—than in other parts of the nation. For all of these reasons, mutual savings banks have been less active in conventional mortgage markets than they might otherwise have been.

When the main mortgage components—FHA, VA, conventional—are put together, what kind of a statistical picture emerges about how mutual savings banks have been supporting the mortgage market in the postwar years? The picture seems an impressive one to me. At the end of the war mutual savings banks held a little over $4-billion in mortgage loans. At the end of 1959, holdings had reached nearly $25-billion. This fivefold expansion was slightly greater than the increase in the overall mortgage debt so that savings banks now hold a slightly larger proportion of the total than at the end of the war, around 13%.

93% of Asset Gains in Mortgages

Perhaps a more meaningful way to indicate the interest of the savings banking industry in the mortgage market is to show the extent of its participation within the limitation of its overall financial resources. In the 14 years or so since the war total assets of savings banks have increased by $22-billion. It may surprise you—as I confess it surprised me—to learn that of this $22-billion gain, $20.5-billion or 93% was in mortgage holdings. And of this $20.5-billion gain, $19-billion was in residential mortgages. In contrast,

(CONTINUED ON PAGE 162)

Economic Education for the Clergy

WALTER H. BISCHOFF

MR. BISCHOFF, *vice-president at Old National Bank in Evansville, Ind., has lectured at Purdue's Clergy Workshop.*

MEMBERS of the clergy are often called on to interpret economic issues, and through sermons and counseling are responsible for helping people to develop understandings of our economic order—its nature, problems, and potentials. The increasing complexity of American living calls for more and more understanding of our general economy on the part of all citizens.

Purdue University was one of the first to recognize the importance of economic education as a special project, and concluded that the most practical approach to the problem envisioned a series of lectures on current economic topics by professional and business economists and attended by our clergymen and teachers. Purdue concluded that one approach to the problem would be to place in the hands of clergymen and teachers the kind of information and educational materials they could use in their daily contacts with members and students, and which would help to deepen and expand public understanding of current economic subjects. Encouraged by their experience with a teacher program, in 1957 the university initiated a workshop for the clergy as a new experiment in the economic education field. The various church bodies in the state—Protestant, Catholic, Jewish — were asked to nominate clergymen of their denominations to participate in a one-week program especially planned for the clergy and religious leaders.

These Economic Education Workshops are sponsored jointly by four divisions and departments of Purdue University in cooperation with the Joint Council on Economic Education of New York. The project is self-supporting, and financed in its entirety by the Purdue Economic Education Advisory Board composed

(CONTINUED ON PAGE 148)

"You probably think I'm an old skinflint, a pinchpenny, and a tightwad. Well, I congratulate you on your keen perception!"

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GEORGE G. WALKER
President, Electric Bond and Share Company

J. HUBER WETENHALL
President, National Dairy Products Corporation

HENRY C. VON ELM
Honorary Chairman

MANUFACTURERS TRUST COMPANY

Head Office: 44 Wall Street, New York

116 OFFICES IN GREATER NEW YORK

Statement of Condition, December 31, 1959

RESOURCES

Cash and Due from Banks	$ 954,473,337
U. S. Government Securities	595,669,527
U. S. Government Insured F. H. A. Mortgages	111,832,763
State, Municipal and Public Securities	256,462,006
Stock of Federal Reserve Bank	6,023,400
Other Securities	25,531,398
Loans, Bills Purchased and Bankers' Acceptances	1,366,000,891
Mortgages	36,674,295
Banking Houses and Equipment	24,003,701
Customers' Liability for Acceptances	50,420,725
Accrued Interest and Other Resources	12,890,493
	$3,439,982,536

LIABILITIES

Deposits		$3,045,521,141
Outstanding Acceptances		57,543,473
Liability as Endorser on Acceptances and Foreign Bills		23,177,840
Other Liabilities		1,736,871
Reserve for Taxes, Unearned Discount, Interest, etc.		25,543,882
*Reserve for Possible Loan Losses		52,604,249
Dividend Payable January 15, 1960		3,023,400
Capital Funds:		
Capital (5,039,000 shares—$20 par)	$100,780,000	
Surplus	100,000,000	
Undivided Profits	30,051,680	230,831,680
		$3,439,982,536

* Applicable to cover such future loan losses as may develop. None are at present known.

United States Government and Other Securities carried at $14[illegible],533,805 are pledged to secure public funds and trust deposits and for other purposes as required or permitted b law

Member Federal Deposit Insurance Corporation

(CONTINUED FROM PAGE 146)

of representatives from agriculture, business, and labor of Indiana.

Contributors to the project, in addition to Indiana Bankers Association, include several divisions of General Motors, Aluminum Company of America, Ball Brothers, Bendix Aviation Corporation, Indiana AFL-CIO, Indiana Consumer Finance Association, Indiana Farm Bureau and Associates, Perfect Circle Company, United States Steel Corporation, and other prominent business concerns.

The 1959 Clergy Workshop attracted 65 clergymen of all faiths and from every section of the state. Some of the subjects considered in the clergy lectures and discussions were: (1) goals and values our economy strives to accomplish; (2) our money, credit, and financial system; (3) the effect of world trade on our economy; (4) contracting economic ideas of American management and American labor leaders; (5) distribution of our national product; and (6) advertising responsibilities in a dynamic society. One day was set aside as "bank day" with the writer of this article lecturing on our financial system and credit, money and banking. Attendance records were broken on "bank day" with a total of 81 visitors, bankers, and clergymen taking part in the three lectures offered that day.

The clergy comments:

". . . I told my people Sunday that in some ways it was one of the greatest weeks of my life. . . ."

". . . The knowledge gained will be excellent help to me in my particular work of administration and counseling. . . ."

". . . This is a much needed kind of workshop—since we of the ministry are woefully ignorant of the field and yet are called on to speak so often about the field. . . ."

The workshop provided an unusual but highly advantageous opportunity to tell the story of banking to people who are in a position to influence important segments of our population. The testimony of clergy has been complimentary, expressing the belief they will be better preachers and teachers as a result of their experience.

Program Expanding

The experiment has proven so successful and has been so well received that it has been planned to expand it gradually into national scale. For the purpose, The Clergy Economic Education Foundation has been incorporated as a nonprofit organization in the State of Indiana. With its headquarters on the Purdue University campus, its program will be to establish an Economic Workshop for Clergy in each of three additional states annually, each under the sponsorship of its respective state university. After each workshop's initial year, its further maintenance will be turned over to a combination of local state business, farm and labor organizations. Any further needed advisory assistance will be available from the foundation.

Two additional workshops were held in November: the first in Kentucky under the auspices of the University of Kentucky; the second in Massachusetts sponsored by Boston University and the state's Department of Education.

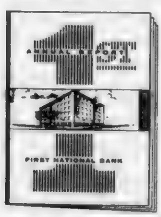
A quartet is four men each of whom thinks the other three can't sing.

BOLD CONCEPTS FOR PROGRESS

–IN ST. LOUIS

Could *your* community profit by the progress of others?

Ours has. And that is why we recommend for your idea file "*Bold Concepts for Progress—in St. Louis,*" a special seven-page section in our 1959 annual report.



Reviewing millions of dollars of progress in our recent past, and still more ambitious plans for the future, the section is intended (1) simply to acquaint you with the *new* St. Louis and (2)—more important—to suggest to you ideas useful in shaping the development of your own community.

We are mailing our annual report now. If you would like to know better the area served by a bank immensely interested in serving *you*—simply address: First National Bank in St. Louis, St. Louis 1, Missouri.

1ST
THE FIRST
NATIONAL BANK
IN ST. LOUIS

Member Federal Deposit Insurance Corporation

STATEMENT OF CONDITION, DECEMBER 31, 1959

RESOURCES

Cash and Due from Banks	$162,552,951.00
U. S. Government Securities	108,092,352.85
Loans and Discounts	275,086,098.02
Loans Wholly or Partially Guaranteed by U. S. Government	50,844,093.24
Other Bonds and Stocks	30,582,930.77
Stock in Federal Reserve Bank	1,200,000.00
Furniture and Fixtures	624,924.47
United Bank Building	331,112.72
Customers' Liability, Letters of Credit, Acceptances, etc.	1,547,928.27
Accrued Interest Receivable	2,269,516.38
Other Resources	107,762.42
	$633,239,670.14

LIABILITIES

Capital Stock	$ 15,400,000.00	
Surplus	24,600,000.00	
Undivided Profits	10,783,785.60	
Total Capital Accounts		$ 50,783,785.60
Reserve for Taxes, Interest, etc.		1,997,996.65
Unearned Discount		2,294,690.14
Liability, Letters of Credit, Acceptances, etc.		1,547,928.27
Other Liabilities		326,650.78
Demand Deposits	$485,594,128.92	
Time Deposits	72,074,783.43	
U. S. Government Deposits	18,619,706.35	
Total Deposits		576,288,618.70
		$633,239,670.14

Bankers' Views on Money and Credit

Here are a few comments on the financial and business situation, culled from 1959 reports of banks.

Keep the FRS Independent

INTEREST rates are prices, and must be understood as such. They represent, on the one hand, the price of borrowing money and, on the other, the reward for saving. Basically, interest rates have the normal function of a price in relating demand to the supply of loanable funds. To deny them an opportunity to perform this vital function is to court serious trouble.

The disposition to run this grave risk was evident during the past year in a revival of proposals in some quarters that the Federal Reserve banks inject large new supplies of money into the banking system as a means of driving interest rates lower. With the economy moving up rapidly toward an optimum rate of operations, the Federal Reserve authorities have wisely resisted these demands, lest new inflationary pressure be generated.

If the supply of credit is restricted in a booming economy, the price of credit will rise, but the chances are greatly improved that the general price level will not. And that is what is vital in preventing the speculative excesses of a boom that leads to a bust, with its tragic train of unemployment, business failures and widespread losses. Since control of credit expansion during boom periods will never be universally popular, it is imperative that we preserve the independence of the Federal Reserve System if we are to have any hope of preserving the purchasing power of our currency.—HORACE C. FLANIGAN, chairman, CHARLES J. STEWART, president, Manufacturers Trust Company, New York.

Demand for Funds

THE demand for funds by business will probably be met in large part by retained earnings and depreciation and by the partial liquidation by corporations of their holdings of short-term investments such as U. S. Treasury bills. However, funds from these sources are likely to be insufficient to meet business demands for funds. As a consequence, some increase in borrowing from the commercial banks will result. In addition, the rising trend of consumer buying of durables will cause the volume of consumer credit to increase substantially. . . .

The commercial banks may be unable completely to accommodate the demand for funds . . . despite a modest rise in savings, because of the probable continuation of a restrictive credit policy by the Federal Reserve System. As a consequence, no significant increase in the supply of credit is likely in the months ahead, and bank reserve positions will continue under pressure.

The net effect on the money markets appears to be that credit de-

(CONTINUED ON PAGE 152)

(CONTINUED FROM PAGE 150)
mands will be strong. It seems probable that credit will be tight well into 1960, with interest rates firm and with any pressure on the upward side.—J. B. FORGAN, vice-chairman, HOMER J. LIVINGSTON, president, The First National Bank of Chicago.

Interest Rates Perspective

THE current level of interest rates is by no means abnormally high in historical perspective; rather, interest rates have been at subnormal levels from the early Thirties until very recently. . . . Today, for the first time in a generation, interest rates are comparable to those that have generally prevailed in many earlier periods of good business. After taxes, however, the net cost of money to individual and corporate borrowers today is still significantly less, and often very substantially less, than in earlier periods. By the same token, since most interest income has become taxable, the actual rates earned by lenders, savers and investors are generally also materially lower. . . .

If interest rates are deemed high, the remedy is not to inflate credit but to encourage more savings. This will restrain rates and, more importantly, will provide the means for greater economic growth.—WILLIAM H. MOORE, chairman, Bankers Trust Company, New York.

A Spending Breather

A DISPLAY of true economic statesmanship, reminding taxpayers that they are the only source of Government income, would be most welcome on Capitol Hill.

The simple truth is that this country can no longer support ventures that will add to the already immense tax burdens of today. Our future . . . is already mortgaged beyond prudent bounds. We need a long breathing spell in Government spending on programs that would prevent balancing of the Federal Budget.—ARTHUR T. LEONARD, president, A. R. FLOREEN, executive committee chairman, City National Bank and Trust Company of Chicago.

Avoid Excesses

WITH the business cycle still in a phase of expansion, the need to avoid excesses remains a prime consideration for both the makers of public policy and the takers of private action. Three recessions have occurred since World War II. They have shown that the severity of readjustment is closely related to the degree of distortion which has preceded. The lesson for the present is that a better job of preventing inflation must be done this time if the current prosperity is to be prolonged and soundly enlarged.—HENRY C. ALEXANDER, chairman, and DALE E. SHARP, president, Morgan Guaranty Trust Company of New York.

Rate Control

INTEREST rates can be controlled by government in only one of two ways: either by abolition of the free market in favor of regimentation, including control of wages and prices; or the highly inflationary alternative of repeated injections of large supplies of new money into the existing market economy. It is to be hoped that the second alternative proves to be as repugnant to the American people as is the first, and that both will be rejected.—JAMES P. HICKOK, president, WILLIAM A. MCDONNELL, chairman, First National Bank in St. Louis.

Housing and Mortgages

(CONTINUED FROM PAGE 101)

FHA and VA Mortgage Loan Guaranty Booklet Ready

A NEW booklet entitled *Summarizing Current Requirements for Insurance or Guaranty of FHA and VA Mortgage Loans,* prepared by the A.B.A. director of mortgage finance, itemizes the main requirements for insurance of each section of the Housing Act of 1959 and also discusses the veterans loan guaranty provisions.

Also included is a brief summary of the Voluntary Home Mortgage Credit Program, Certified Agency Program, and the real estate provisions of the Brown bill, H.R. 8160.

Copies are available at 50 cents each upon request to Kurt F. Flexner, director of mortgage finance, A.B.A., 12 E. 36th Street, New York.

$73-billion Construction in '59; $76-billion in '60

CONSTRUCTION volume in 1959 registered its greatest annual increase in 10 years, climbing to a total of $73-billion, and prospects are bright for another record-breaking year in 1960, the Associated General Contractors of America stated in its annual year-end review and outlook statement.

The 1959 total, consisting of $54-billion in new construction put in place and an estimated $19-billion in maintenance and repair operations, was sparked by a sharp increase in residential volume and moderate rises in most other major types of construction.

Thus construction, as the nation's largest production activity, broke dollar volume records for the fourteenth successive year, continuing to account for more than 15% of the gross national product, and for some 15% of total employment, directly and indirectly.

A total of more than $76-billion is forecast for 1960, depending on various factors, made up of $56.1-billion in new construction and about $20-billion in maintenance and repair. The figures do not include work in the new states of Alaska and Hawaii, nor overseas construction performed by the American Government and private enterprises.

The value of new construction put in place in December 1959 amounted to $4.1-billion, according to the Bureau of the Census. This was 7% less than in November 1959, but the same level as in December 1958.

Near Record Housing Starts

NEW nonfarm housing starts in 1959 totaled 1,376,900 and approximated the all-time record set in 1950, according to the Bureau of the Census. (Starts in 1950 numbered 1,396,000.) The 1959 starts compare to a total of 1,209,400 for 1958, or a 13.8% increase. Private starts in 1959 totaled 1,341,400, compared with 1,141,500 for 1958.

Nonfarm housing starts in December totaled 82,300, compared with 91,200 for December 1958, or a 9.8% decline. Private starts in December totaled 81,700, compared with private starts in December 1958 of 89,500, or an 8.7% decline.

News for Country Bankers

(CONTINUED FROM PAGE 80)

commodity support programs. The purpose of this would be to contain the supports within the budget—keep it from running away.

(3) Export of commodities could be accelerated by the Federal Government granting credits to foreign governments and by encouraging private enterprise through United States participation in credit guarantees for private transactions.

(4) Agricultural research should be accelerated to discover new markets and new uses for farm commodities. Grants should be made by the Government to the food industry, colleges, and other institutions to vastly increase this type of research. Major research and development contracts should be granted for this research — just as in the case of missiles.

(5) Planning of farm programs should be placed in the hands of the farmer and the agribusiness men. Such programs must take into consideration the effect on the entire area of agribusiness.

(6) New programs should recognize the food requirements of the future population. America must always avoid food shortages; a hungry stomach is as dangerous as an idle mind.

A Texas Conservation Award

HERMAN BLANK, district supervisor of Comal-Hays-Guadalupe Soil Conservation District No. 306 in Texas, received the $500 award given annually by the Texas Bank & Trust Company of Dallas to the outstanding district supervisor. The check was presented to Mr. Blank at the state convention of the Association of Texas Soil Conservation Supervisors in Galveston on January 13.

Mr. Blank is serving his 20th year as a member of the board of District 306. In announcing the award, Texas Bank & Trust said that "even though Mr. and Mrs. Blank and one hired hand operate an 1,130-acre ranch, he is never too busy with his own affairs to work with others."

Beef Production Financing

THE growing importance of beef in the agricultural economy of the Tenth Federal Reserve District and the rapid improvements being made in its production also have led to changes in the financial requirements of the industry. A booklet released recently by the Federal Reserve Bank of Kansas City analyzes the financing needs of the various beef production systems in use in the district. It is entitled *Financing Beef Production Systems*.

It is pointed out by the booklet that the strength of beef production is evident in the fact that almost two-thirds of the total farm land in the district is used for permanent or rotation pasture and large supplemental grazing areas are available. Furthermore, land classification studies have shown that a large part of the farm land now being cultivated could be used most effectively as pasture land in the long run.

With the demand for beef expected to continue to increase, shifts of resources from wheat production into pasture and feed grain production would seem appropriate.

AMERICAN TRUST COMPANY

San Francisco

Statement of Condition, December 31, 1959

RESOURCES

Cash on Hand and in Banks	$ 350,868,776.24
U. S. Government Obligations	407,615,712.19
State, County and Municipal Bonds	91,250,001.92
Other Bonds and Securities	7,911,398.12
Stock in Federal Reserve Bank	3,000,000.00
Loans and Discounts	975,776,081.32
Bank Premises and Equipment	17,367,983.03
Other Real Estate	1.00
Customers' Liability under Acceptances	1,177,095.58
Accrued Interest Receivable and other Assets	13,844,378.97
Total Resources	$1,868,811,428.37

LIABILITIES

Deposits		$1,709,142,267.18
Acceptances Outstanding		1,247,404.48
Reserve for Unearned Discount		18,536,763.22
Reserve for Interest, Taxes, etc.		10,528,383.28
Other Liabilities		5,077,926.87
Capital Funds:		
Capital Stock ($10.00 par value)	$30,593,750.00	
Surplus	69,406,250.00	
Undivided Profits	24,278,683.34	124,278,683.34
Total Liabilities		$1,868,811,428.37

United States Government and other securities carried at $218,051,565.43 are pledged to secure U. S. Government deposits, other public funds, trust deposits, and for other purposes as required or permitted by law.

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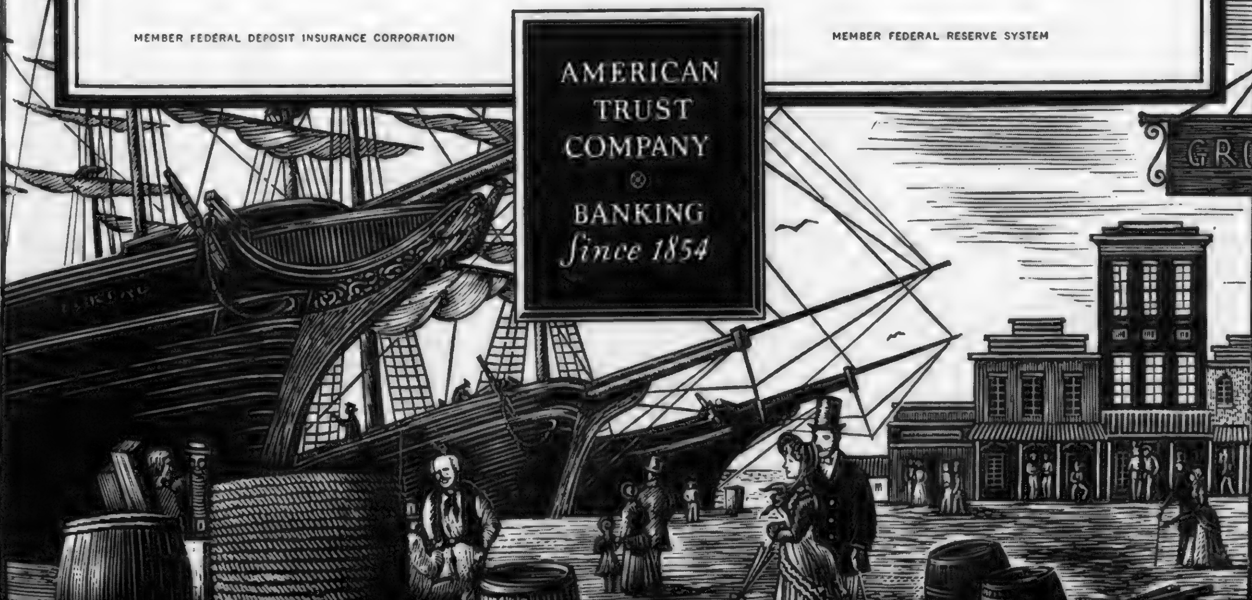
100 BANKING OFFICES SERVING NORTHERN CALIFORNIA

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

MEMBER FEDERAL RESERVE SYSTEM



New Books

BIG BUSINESS AND FREE MEN. By *James C. Worthy*. Harper, New York. 205 pp. $4. "Management's opportunity and responsibility to stimulate a sense of personal worth and individual freedom to progress."

CASEBOOK OF SUCCESSFUL IDEAS FOR ADVERTISING AND SELLING. By *Samm Sinclair Baker*. Doubleday & Co., Inc., New York. 258 pp. $3.95. Capsule case histories demonstrating ideas that sell.

OUR HOUSING JUNGLE AND YOUR POCKETBOOK. By *Oscar H. Steiner*. University Publishers, Inc., New York. 180 pp. $3.95. "How to turn our growing slums into assets."

ECONOMICS AND THE POLICY MAKER. Brookings Institution, Washington, D. C. 209 pp. $2.95. This book comprises the Brookings Lectures of 1958-59, reviewing the uses of economics in private and public affairs.

MONETARY POLICY UNDER THE INTERNATIONAL GOLD STANDARD: 1880-1914. By *Arthur I. Bloomfield*. Federal Reserve Bank of New York. 62 pp. 50 cents. A monograph analyzing the setting in which central banks functioned in the pre-1914 gold standard period.

THE COMPARATIVE STUDY OF ECONOMIC GROWTH AND STRUCTURE. National Bureau of Economic Research. New York. 201 pp. $3. Suggestions on research objectives and organization.

THE IMAGE MERCHANTS: THE FABULOUS WORLD OF PUBLIC RELATIONS. By *Irwin Ross*. Doubleday & Co., Inc., Garden City, N. Y. 288 pp. $4.50. This study of practices and practitioners by a New York *Post* man is lively, informative, and interesting The author concludes: "We would all gain, in sum, if the PR man were edged out of the shadows and subjected to the glare of

(CONTINUED ON PAGE 160)

attention normally reserved for his clients. These days he is important enough to warrant continual scrutiny."

1960 U. S. MASTER TAX GUIDE. Commerce Clearing House, Inc., Chicago. 448 pp. $3. This is the latest annual edition of a well known handbook of Federal income tax law. It is designed for use in the preparation of 1959 income tax returns and in tax planning for 1960. Keyed to the publisher's more extensive 1960 Standard Federal Tax Reports, it also serves as an excellent index-digest of the income tax portion of the more detailed work.

THE PRICE DISCRIMINATION LAW. By *Corwin D. Edwards*. Brooking Institution, Washington, D. C. 698 pp. $10. A review of experience under the Robinson-Patman Act, covering how the law has worked, major problems in its administration, and decisions of the Federal Trade Commission.

RETAIL CREDIT PROCEDURES IN AUTOMOBILE FINANCING. By *Daniel J. Lino*. Automotive Finance Association, Miami, Fla. 173 pp. $8.75. This manual is "an explanation of the accepted credit practices and procedures used in financing the retail sales of new and used car dealers." It is the first in a series of automobile finance handbooks, and may be ordered from the publisher on a 60-day trial basis.

PRINCIPLES AND PRACTICE OF ESTATE PLANNING. By *Thomas J. Snee and Lawrence X. Cusack*. Prentice-Hall, New York. 390 pp. $15. Two lawyers present the principles and techniques of the subject. Covered are estate analysis, life insurance, *inter vivos* transfers, business interests, powers of appointment, and charitable gifts and foundations. An appendix contains selected trust and testamentary forms and a bibliography.

Mr. Snee is on the faculty of Fordham University Law School. Mr. Cusack is a New York attorney.

CONSERVATIVES IN POWER: A STUDY IN FRUSTRATION. By *Edwin L. Dale, Jr.* Doubleday & Co., New York. 214 pp. $3.95. Mr. Dale, economics specialist in the Washington Bureau of *The New York Times,* takes a look at the "conservative frustrations" of the present Administration, including inflation, the budget, money, the national debt, taxes, two recessions, and farm policy. He concludes that although the book is "the story of why the objectives of conservatism are far more difficult to achieve than was realized in 1952," it can't be concluded that they will never be achieved, "at least in great part. Indeed," Mr. Dale adds, "they probably *were* achieved in part, and with a better knowledge of the realities they may be even more closely approached in the future. We shall all be the losers if conservative objectives become discredited because we now know some of the obstacles to conservative performance."

Careful Screening Will Keep Consumer Credit Safe

A.B.A.

EVEN in this stringent money market, consumer credit has an excellent record. If some of the unbelieving economists had had more practical experience in consumer credit relations, I feel sure they would be more sanguine as to the road ahead for this great American initiated method of selling consumer goods. If they could see the careful screening of borrowers in all types of consumer credit, I think many of their fears would not be justified.

Happily, the period ahead into the first half of 1960 looks very prosperous, with increasing consumer demand coupled with increased factory output and high production. Most credit men are not concerned with the willingness of consumer debtors to pay their debts but their ability to pay them. If the consumer is permitted to assume more debt than his income can carry, then his paying ability is impaired. This is where our banker can help by not allowing the borrower to take on more credit assignments than he has free income to service. In most cases, combined monthly payments to be serviced should not run over 25% of the borrower's total income.—R. C. KEMPER, *chairman, City National Bank & Trust Company, Kansas City, Mo., before the National Credit Conference.*

Mutuals and Mortgages

(CONTINUED FROM PAGE 145)

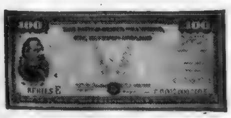
the gain in securities investments—state and municipal as well as corporate—amounted to less than \$4½-billion and all other types of assets increased by less than \$1-billion. A bit of quick arithmetic shows that the gain in mortgage and other investments exceeded the gain in total assets by \$3½-billion. These additional funds were not produced by credit creation — only commercial banks can do that—or by any other economic legerdemain. They came from the sale of U. S. Government securities.

Thus, savings banks could hardly have participated more actively than they have in postwar mortgage markets given their resources and legal limitations. Their 93% of net asset flows in mortgages exceeded even that of savings and loan associations which, as mortgage specialists, applied about 88% of their net asset flow to mortgage loans. For life insurance companies and commercial banks the comparable percentages were 48% and 30%, respectively.

Mortgage/Asset Ratio Varies

Reflecting the tremendous postwar expansion in savings bank mortgage holdings relative to assets, the mortgage/assets ratio for the industry as a whole, was approaching two-thirds by the end of 1959, from about one-fourth in 1945. The rate of gain has, of course, not been the same in each of the postwar years. Diversified investment opportunities available to savings banks in the capital market have permitted shifts between mortgages and securities in accordance with changes in relative yields. Thus in 1955, when mortgages were especially attractive, savings banks increased their holdings by a record amount which still stands. Only two years later, however, when yields shifted in favor of corporates, net mortgage investments declined markedly. The subsequent reversal to generally easy money conditions resulted in a marked expansion in mortgage acquisitions by savings banks in 1958. This past year savings banks have been able to place nearly as much funds in mortgages as in 1958, notwithstanding the sharp decline in deposit inflows.

There are some factors which may result in a larger volume of deposit gains in 1960 than in 1959. The expected rise in consumer income will make it possible to step up current levels of gross new deposits. At the same time withdrawals may decline as depositors hesitate to reduce accounts further and as stock prices, which have advanced over a long period of time, cease rising or decline. Moreover, if the 4¼% interest rate ceiling on long-term Government securities is lifted, the U. S. Treasury would be able to offer bonds at rates attractive to institutional investors and would not have to appeal directly to individuals by offering unusually attractive short-term securities. Thus there would be a reduced likelihood of another "Magic Five" making a dramatic impact on the deposits of thrift institutions.



BANKING

IDEAS SYSTEMS

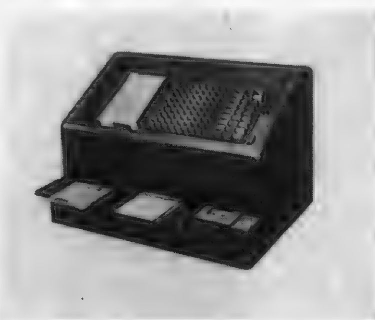
WHAT'S NEW

BOOKLETS PRODUCTS

This department is compiled by Ethel M. Bauer *of* Banking's *staff.*

A new high-speed check signing machine that produces maximum disbursement protection has been announced by the **Todd Company Division, Burroughs Corporation, 1150 University Avenue, Rochester 7, N. Y.** Machine is equipped with a locked vault in which signed checks are deposited, and it has a nonresettable meter that counts the number of documents signed. Other features include two ink fountains. Any combination of two colors may be applied in one operation. Write for further information.

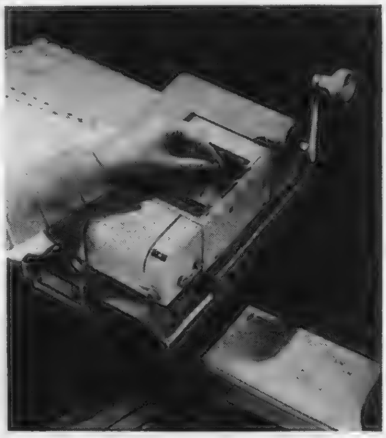
An all-purpose teller's machine, designed for tellers handling every type of counter transaction, is being introduced by **The National Cash Register Company.** The new Class 42 is ideal for drive-in windows



where a variety of transactions must be controlled and posted by an individual teller. Further information available from **Product Information, Dayton 9, Ohio.**

An ordinary electric typewriter can now be converted at will, to a continuous marginal punched forms-feeder with the use of a forms feeding device announced by **Moore Business Forms, Inc., Niagara Falls, N. Y.** Called the Flexible Formaliner, it attaches to permanent plates mounted on either side of the typewriter carriage.

A new compact postage meter machine has just been announced by **Pitney-Bowes, Inc., Stamford, Conn.** This desk-model machine seals, stamps, and stacks letters in one



operation. The Model 5500 comes equipped with a lightweight meter carrying case, an envelope stacker that holds up to 40 letters, and a parcel post tape dispenser.

BOOKLETS

Tomorrow's Security Vault, a 19-page brochure just issued by **Wassell Organization, Inc.,** tells how to transform bank vault from warehouse to work area. Write for copies to **Westport, Conn.**

How to Win Favorable Employee Attitudes On and Off the Job describes a tested means of employee communication designed to help increase productivity and profits. For this 16-page illustrated booklet write to **Employee Relations, Inc., 13 East 53rd Street, New York 22.**

A 4-page brochure, issued by **Digitronics Corporation,** describes custom-designed data processing equipment. For further information write to **Dykor Systems Division, Albertson, L. I., N. Y.**

A new 8-page booklet, describing in detail the Univac Tape Searchwriter, has just been published by **Remington Rand Division of Sperry Rand Corporation.** The Tape Searchwriter is an integrated system which provides an economical method for searching a magnetic tape for a desired item. When the item is located, the information is automatically typed. A copy of this descriptive booklet can be obtained by writing to the company at **315 Park Avenue South, New York 10,** and requesting U 1729.

A colorful brochure containing advice on how to choose a sign for a place of business has just been released by **Amplex Manufacturing Company of Philadelphia.** A copy may be obtained by writing on your business letterhead to the company at **2325-31 Fairmount Avenue, Dept. 20, Philadelphia 30, Penna.**

An 8-page brochure presented in color has just been released by **Financial Displays, Inc.** It is designed to illustrate graphically how displays can be used tastefully and effectively. Write for a free copy to **296 N. E. 67th Street, Miami 38, Fla.**

A new booklet is now available, free of charge or obligation, from **Burroughs Corporation** describing the company's complete line of bank automation systems and equipment. Copies may be obtained from any local branch sales office or by writing to **Detroit 32, Michigan.**

Business Mail: What's In It For You, a 16-page booklet presenting a comprehensive picture of the benefits derived by home-owners and apartment dwellers from receipt of various forms of business mail. Booklet may be obtained, without charge, by writing to **The Business Mail Foundation, 130 East 59th Street, New York 22, N. Y.**

The OUTLOOK and Condition of Business

(CONTINUED FROM PAGE 33)

States has shown little if any rise during the past five years, in striking contrast to the vigorous growth of the rest of the world."

Traditionally in one of our national election years anything can happen and usually does. In quest of burning issues a host of inflationary projects will be launched affecting housing, social security, minimum wages, depressed areas and depressed people, schools, agriculture, industries hit by foreign competition, and just plain aid. Along with this will come proof that the country is in serious condition with chaos just around the corner.

An Unsettling Settlement

The steel settlement settled little in the way of keeping management in a position of authority equal to its responsibility, and if this is the pattern for a whole string of settlements in other industries it is one of the most disturbing factors imaginable. The settlement does show that Washington is inclined to follow the path of least political resistance, which, of course, is something less than a surprise in a year divisible by four, the occasion of our quadrennial political circus.

High money rates are an issue made to order for 1960 because borrowers are more vocal than lenders and savers, and rates are a subject that can easily be made incomprehensible and exciting.

The dearth of savings which affects practically all countries is being endlessly discussed in relation to high money rates and inflation, but there is also a dearth of solutions. The only easy answer is artificially easy money or artificial money. Great economic expansion will require great capital and perhaps our vision of the 1960s is bigger than our wallet.

All in all this has been a field day for those who are willing to shoot for 1970, 1980, or 2000, in the true spirit of the space age. The farther the better, because distance lends enchantment and is more interesting and less risky, as long as we don't bet too much.

If one goes out far enough into the future the reports need only be interesting, like a Russian returning from a trip to Mars. No one will be able to check up for a long time.

One of the most interesting, plausible, and conservative explorations of this kind recently was made by the advertising firm of McCann-Erickson. A few of their projections with brief comments are reproduced here.

Boomy Spirit

The positive causes of the boomy spirit are interest-

BANKING'S Advertisers

February 1960

ing and complex. Certainly one of the chief stimuli is the one seldom mentioned as a confidence builder, and that is inflation.

Many of the plus forces are included in the accompanying summary "Digest of the Business Outlook." Others are:

(1) Business is behind schedule in many vital areas because of the steel strike and related happenings, and it will take several months to catch up.

(2) Relaxation from cold war tensions, even if it lasts only until the summit resumes eruptions, will help business all over the world, except those businesses which depend greatly on defense orders.

Someone given to pipe dreaming suggested recently that we should stop right where we are and have a moratorium on international politics, leaving well enough alone and getting on with the work of developing our own and the world's great resources.

(3) Population increases everywhere are a mixed economic portent, but in our case they can probably be counted as a favorable factor because we have a population that wants more and more and is fairly willing to work to get it.

The extraordinary increase in the population of the assembly of the United Nations, representing new nations being born faster than the map-makers can print, will probably cause more problems than the increase of people. If the trend continues, Long Island, Los Angeles County, Scotland, and Wales will be asking for their own representatives.

(4) Technological progress in industry is more rapid than ever before, more is being spent on research, and we are assured, by those who know, that this leap forward is just starting.

(5) Unlike any period of expansion since World War II, this one includes the rest of the world, chiefly the free part of it. While it means more competition for our own industries, it also means a tremendous rise in international trade and investment. It is a strange moment in history for Castro and certain other exponents of the new nationalism to be leading people into the wilderness away from the main stream of investment and progress.

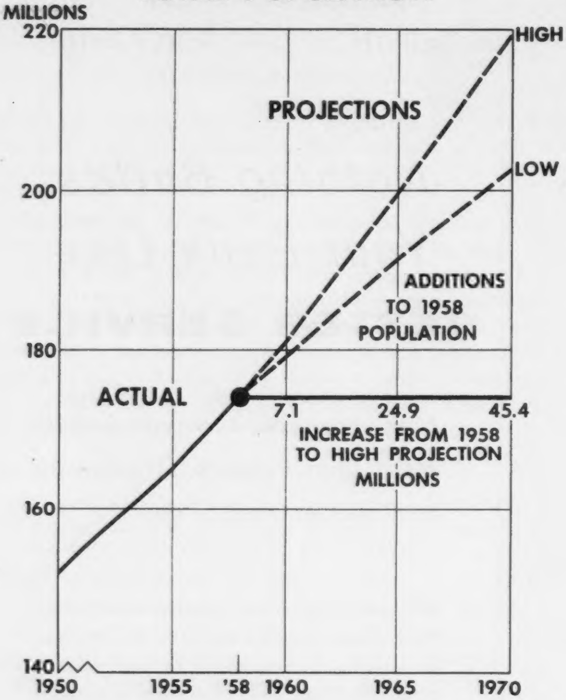
The Ruble Gap

Coming back briefly to China and the Far East, unpredictable and unfathomable developments are in progress which could affect the peace of the world. No one seems to know what Communist China is up to in India, Indonesia, Korea, and across from Formosa. The chances are that Peiping does not know either. They have not been in this business very long and may be trying to act like they think a big power acts in their story books.

Only one thing seems increasingly evident and that is a gap between the thinking in Moscow and Peiping. This has existed for some time but recently is widening. Certainly Russia does not want to give her Chinese friends any vital atomic or missile secrets. Here is what a recent study of the National Planning Association said about Russian economic aid to Communist China:

"The Russians, however, seem to have been unwilling to assist the Chinese very substantially in carrying the financial burden of China's industrial development program. The Soviet Union has not given Communist

TOTAL POPULATION



According to the high projection, the United States will have 45,400,000 additional consumers by 1970—an increase approximately equivalent to the present population of France. In 1970 the average worker will spend less than 38 hours per week on the job. This shorter work week will bring expansion of recreation

A statistical forward look at the decade we have just entered is presented in a booklet entitled *The Decade of Incentive.* It is part of a continuing series of market forecasts published by McCann-Erickson, Inc., New York. The three charts here are among the 25 included in the booklet to describe what its authors call "a decade of unparalleled prosperity, of record growth, of extraordinary improvement in incomes and living standards, of expansion in domestic and foreign markets that dwarfs anything yet experienced."

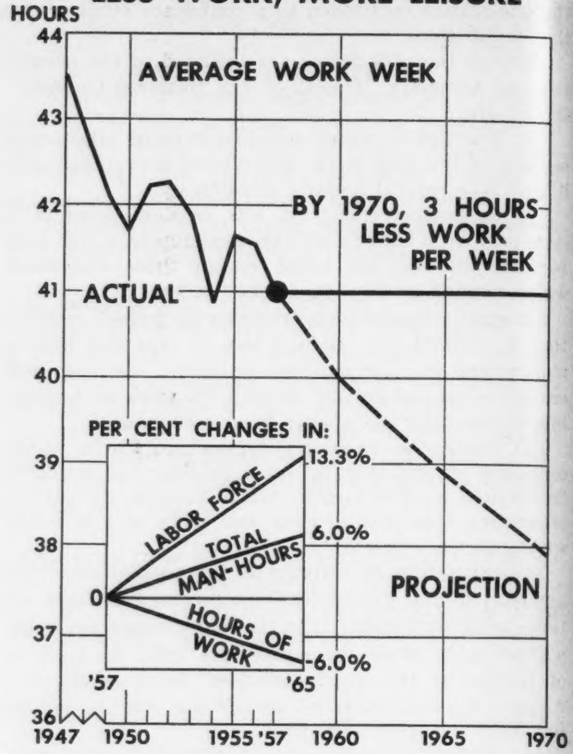
These three charts were selected to point up the study's statement that national output will gain enough in the next 10 years to provide 30% more goods and services per person for 25% more people, with perhaps 8% less work time per person.

China a single free economic grant as far as is known, and even the volume of Soviet loans and credits to the Chinese has been small in terms of China's economic situation and needs.

"The only two long-term Soviet economic loans to Communist China which have been publicly announced were the 1950 and 1954 loans totaling $430,000,000. In 1958, Peking did not receive any further foreign credits, and apparently it does not expect any in 1959. The two above-mentioned loans probably totaled less than half the value of Soviet removals and destruction of equipment in Manchuria in 1945."

William R. Kuhns

LESS WORK, MORE LEISURE



Our gross national product is expected to exceed $700-billion by the end of the decade—an amount approximately double the 1950 output